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No. 8876

United States

Vol
2108

Circuit Court of Appeals

For the Ninth Circuit.

THE PACIFIC MARINE SUPPLY COMPANY
and WEBB PRODUCTS CO., INC.,
Appellants,

vs.

THE A. S. BOYLE COMPANY,
Appellee.

Transcript of Record

Upon Appeal from the District Court of the United States
for the Western District of Washington,
Northern Division.

FILED

AUG 21 1938

PAUL F. O'BRIEN,
CLERK

United States
Circuit Court of Appeals

For the Ninth Circuit.

THE PACIFIC MARINE SUPPLY COMPANY
and WEBB PRODUCTS CO., INC.,
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[Clerk's Note: When deemed likely to be of an important nature, errors or doubtful matters appearing in the original certified record are printed literally in *italic*; and, likewise, cancelled matter appearing in the original certified record is printed and cancelled herein accordingly. When possible, an omission from the text is indicated by printing in *italic* the two words between which the omission seems to occur.]

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NAMES AND ADDRESSES OF COUNSEL

FRED H. MILLER, Esq.,
Attorney for Appellants,
706 Central Building,
Los Angeles, California.

G. E. STEINER, Esq.,
Attorney for Appellants,
304 Spring Street,
Seattle, Washington.

GEORGE P. DIKE, Esq., of
DIKE, CALVER AND GRAY,
Attorney for Appellee,
350 Tremont Building,
Boston, Massachusetts.

G. WRIGHT ARNOLD, Esq.,
Attorney for Appellee,
Smith Tower,
Seattle, Washington.

CLINTON L. MATHIS, Esq.,
Attorney for Appellee,
Smith Tower,
Seattle, Washington. [1*]

*Page numbering appearing at the foot of page of original certified Transcript of Record.

United States District Court
Western District of Washington

In Equity No. 1035 On Letters Patent No. 1,838,618

THE A. S. BOYLE COMPANY,

Plaintiff,

vs.

THE PACIFIC MARINE SUPPLY COMPANY,
Defendant.

BILL OF COMPLAINT

To the Honorable the Judges of the District Court
of the United States for the Western District
of Washington:

The plaintiff, The A. S. Boyle Company, being a corporation duly organized and existing under the laws of the State of Ohio and having its principal office and place of business at 1934 Dana Avenue in the City of Cincinnati, County of Hamilton, State of Ohio, brings this its Bill of Complaint against The Pacific Marine Supply Company, a corporation of the State of Washington having a regular and established place of business in the City of Seattle, County of King, State of Washington, and committing the acts of infringement hereinafter complained of at said Seattle in the Western District of Washington.

And thereupon the plaintiff complains and says:

1. This is a suit arising under the patent laws of the United States. The defendant has a regular and established place of business within the Western District of Washington and has committed the in-

fringement complained of within said Western District of Washington;

2. Plaintiff is informed and believes that prior to the 17th day of November, 1923, Manfred E. Griffiths, then a subject of the King of Great Britain, and a resident of Stowmarket in the County of Suffolk, England, was the first, original and sole inventor or discoverer of a certain new and useful improvement in [2] *in Plastic Compositions*, not known or used by others in this country before his invention or discovery thereof, and not patented or described in any printed publication in this or any foreign country before his invention or discovery thereof, or more than two years prior to his hereinafter mentioned application for Letters Patent of the United States, and not in public use or on sale in this country for more than two years prior to his application for said Letters Patent in the United States, and which had not been abandoned, nor patented, nor caused to be patented by him or his legal representatives or assigns in any country foreign to the United States on an application filed more than twelve months prior to the filing of his application for Letters Patent of the United States as hereinafter mentioned;

That on November 17, 1923 the said Manfred E. Griffiths duly filed an application for Letters Patent of the United States, Serial No. 675,370 for said invention in accordance with the then existing laws of the United States;

3. That, the said Manfred E. Griffiths and the plaintiff herein having complied in all respects with

the conditions and requirements of the United States Statutes in such cases made and provided, Letters Patent of the United States No. 1,838,618, for said invention were on the 29th day of December 1931 issued and delivered in due form of law to the plaintiff, The A. S. Boyle Company, as assignee by mesne assignments of the said Manfred E. Griffiths, whereby the plaintiff became and now is the exclusive owner of all the right, title and interest in and to the invention covered by the said Letters Patent and in and to said Letters Patent as in and by said Letters Patent or a duly certified copy thereof ready here in court to be produced, and of which profert is hereby made, will fully and at large appear;

4. That the invention as aforesaid is of great utility and [3] value, and that plastic compositions made in accordance with the invention of said Letters Patent have been sold by plaintiff in large and increasing quantities and that the public has recognized the great usefulness and value of said improvement;

5. That the defendant herein, The Pacific Marine Supply Company, has since the grant of said Letters Patent infringed upon the rights of the plaintiff therein, and, particularly upon claims 5, 6, 8, 11, 13, 15, 16, 17 and 18 thereof by using and selling within the Western District of Washington and elsewhere within the United States plastic compositions, for instance, but not exclusively, under the names "Duratite Wood Dough" and "Duratite Seam Putty", embodying the invention of said

Letters Patent No. 1,838,618 and plaintiff is informed and believes that defendant will continue to infringe upon the rights of the plaintiff in said Letters Patent unless prevented by decree of this Court;

6. That the plaintiff has given notice to the public including this defendant that the plastic composition made and sold by it is patented by fixing to the packages in which it is enclosed a label bearing thereon the word "Patent" together with the number "1,838,618", as provided in Section 4900 of the Revised Statutes as amended.

Wherefore plaintiff prays:

(a) For a perpetual injunction restraining the defendants, their clerks, agents, servants and workmen, from infringing said patent; and for a preliminary injunction to a like effect pending this suit;

(b) For an accounting of damages and profits due to said infringement and that the defendants be compelled to pay over to the plaintiff said damages, as well as said profits; and for plaintiff's costs.

(c) For such other relief as equity may require. [4]

THE A. S. BOYLE COMPANY
By WALTER SILBERSACK

G. WRIGHT ARNOLD
CLINTON L. MATHIS

Solicitors for Plaintiff

GEORGE P. DIKE
CEDRIC W. PORTER

Of Counsel

VERIFICATION

State of Ohio,

County of Hamilton—ss.

Walter Silbersack, being duly sworn, deposes and says, that he is the General Manager of The A. S. Boyle Company, the corporation named in the within entitled action; that he has read the foregoing Bill of Complaint and knows the contents thereof, and that the same is true to his own knowledge, except as to the matters herein stated to be alleged upon information and belief, and as to those matters he believes it to be true; and the reason why this verification is not made by the plaintiff personally is that the said plaintiff is a corporation of which affiant is an officer.

WALTER SILBERSACK

Sworn to before me this 6th day of October, 1933.

[Seal]

CHARLES GALINARI

Notary Public

My Commission expires May 20, 1936.

[Endorsed]: Filed Oct. 13, 1933. [5]

In the United States District Court for the Western
District of Washington

In Equity on Letters Patent No. 1,838,618

THE A. S. BOYLE COMPANY,

Plaintiff,

vs.

THE PACIFIC MARINE SUPPLY COMPANY,

Defendant,

WEBB PRODUCTS CO., INC.,

Intervener.

ANSWER OF THE PACIFIC MARINE
SUPPLY COMPANY

To the Honorable Judges of the District Court of
the United States for the Western District of
Washington:

The Defendant, The Pacific Marine Supply Company, is without knowledge and is not informed save by the Bill of Complaint herein as to whether or not Plaintiff, The A. S. Boyle Company, is a corporation duly organized and existing under the laws of the State of Ohio, having its principal office and place of business at 1934 Dana Avenue, in the City of Cincinnati, County of Hamilton, State of Ohio, and, therefore, leaves Plaintiff to its proofs thereon.

The Defendant, for the purpose of this action admits that it is a corporation of the State of Washington, having a regular and established place of business in the City of Seattle, County of King,

State of Washington, but denies that it is committing any acts of infringement at Seattle, in the Western District of Washington, or elsewhere.

And thereupon, this Defendant, answering the Bill of Complaint, says:

1. The Defendant admits the jurisdiction of this [6] Honorable Court. The defendant also admits that it has a regular and established place of business within the Western District of Washington. Defendant denies that it has committed any acts of infringement either within the Western District of Washington or elsewhere.

2. The Defendant has no information, save by the Bill of Complaint, as to the allegations set forth in paragraph two of the Bill of Complaint and, therefore, denies that prior to the 17th day of November, 1923, or at any other time, that Manfred E. Griffiths was the first, original, and sole inventor or discoverer of any new or useful improvement in plastic compositions; denies that such alleged improvements in plastic composition were not known or used by others in this country before his alleged invention or discovery thereof; denies that said alleged new and useful improvements were not patented or described in any printed publication in this or any foreign country before his invention or discovery thereof, or more than two years prior to his alleged application for letters patent of the United States; denies that said alleged new and useful improvements were not in public use or on sale in this country for more than two years prior

to his alleged application for letters patent of the United States; and denies that said alleged improvements had not been abandoned, nor patented nor caused to be patented by said Manfred E. Griffiths or his legal representatives or assigns in any country foreign to the United States on an application filed more than twelve months prior to the filing of his alleged application for letters patent of the United States.

This Defendant also denies that on or about November 17, 1923, the said Manfred E. Griffiths filed an application for letters patent of the United States and denies that said alleged application was filed in accordance [7] with the then existing laws of the United States.

3. In answering paragraph three of the Bill of Complaint this defendant admits that purported letters patent of the United States, No. 1,838,618, were issued on the 29th day of December, 1931, to The A. S. Boyle Company as assignee by mesne assignments of the said Manfred E. Griffiths, but denies that the said Manfred E. Griffiths and/or the Plaintiff herein complied with the conditions and requirements of the United States statutes in such cases made and provided; Defendant denies that the Plaintiff became and/or now is the exclusive owner of all the right, title and interest in and to the alleged invention covered by the said letters patent and denies that the Plaintiff has become and/or now is the exclusive owner of all the right, title, and interest in and to said letters patent.

4. The Defendant, answering paragraph four of the Bill of Complaint, denies each and every allegation contained in paragraph marked "4."

5. The Defendant, in answer to paragraph five of the Bill of Complaint, admits that it has sold within the Western District of Washington plastic compositions under the names of "Duratite Wood Dough" and "Duratite Seam Putty", but denies that Defendant has infringed upon the rights of the Plaintiff herein and denies that "Duratite Wood Dough" and/or "Duratite Seam Putty" embody the invention of said letters patent No. 1,838,618. The Defendant further denies that it is or that it will continue to infringe upon the rights of the Plaintiff in said letters patent.

6. The Defendant, in answer to paragraph six of the Bill of Complaint is without knowledge or information except by the Bill of Complaint herein and, therefore, denies that the Plaintiff has given notice to the public or to this [8] Defendant that the plastic composition made and sold by Plaintiff is patented either by affixing to the packages in which it is enclosed a label bearing the word "Patented" together with the number "1,838,618", or otherwise.

7. The Defendant denies each and every allegation of infringement or other unlawful act by it in the Bill of Complaint contained.

8. As a first affirmative defense, the defendant, answering on information and belief, alleges that the letters patent in suit are void and of no force and effect because, in view of the state of the art as

known at the time of and long prior to the alleged invention or discovery, the alleged improvements did not involve invention but involved nothing more than the exercise of mere mechanical skill.

9. The Defendant, as a second affirmative defense, answering upon information and belief, alleges that the said letters patent and each of the claims, particularly noted in paragraph five of the Bill of Complaint, are void and of no force and effect because the alleged invention and improvement claimed therein and covered thereby and each and every substantial and material part thereof was, long prior to any invention or discovery thereof by the said Griffiths, patented or described in the following patents and printed publications:

UNITED STATES PATENTS:

Jarvis	329,313	October 27, 1885
Arnold	1,195,431	August 22, 1916
Hinze	1,594,421	August 3, 1926
Deitz and Wayne	133,969	December 17, 1872
Ritschke	1,497,028	June 10, 1924
Ellis	999,490	August 1, 1911
Balke and Leysieffer	1,468,222	September 18, 1923
Dunwoody and Wills	1,187,890	June 20, 1916
Lindsay	1,493,207	May 6, 1924

[9]

Ekstein	458,157	August 25, 1891
Hyatt and Blake	89,582	May 4, 1869
Reagles	311,203	January 27, 1885
Grawl	1,652,353	December 13, 1927
Black	1,294,355	February 11, 1919
Merrick	1,203,229	October 31, 1916
Pierson	65,267	May 28, 1867

BRITISH PATENTS:

Mennens	2,775	November 13, 1860
Bulling	169,177	December 18, 1922
A. De Pont et al	24,790	November 5, 1896
Thompson	27,534	November 23, 1897

GERMAN PATENT:

U. Marga	85,235	1893
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PUBLICATIONS:

“Engineer” dated March 3, 1922, published at 28 Essex Street, Strand, London, W. C. 2, pages 230 and 231.

And others to which the defendant has not now the dates, numbers and patentees thereof, or the names of the publications, titles, and authors identifying the same and which defendant prays leave to furnish when sufficiently informed thereof.

10. As a third affirmative defense defendant avers, on information and belief, that the letters patent in suit are invalid and void in that Manfred Ethelwold Griffiths was not the original or first inventor of the alleged improvements in plastic compositions in that the same plastic compositions and all substantial parts thereof were known to and in public use by the following named persons in the United States prior to the alleged invention by the said Griffiths and more than two years prior to the filing of the alleged application for letters patent: [10] E. S. Webb, now residing at San Bernardino, California; place of knowledge and use: Kelly Field, near San Antonio, Texas. Murray C. Tunison, Elsinore, California; place of knowledge and use: Ala-

meda, California. Joseph J. Graf, Los Angeles, California; place of knowledge and use: Kelly Field, San Antonio, Texas. M. C. Pinnell, Calexico, California; place of knowledge and use: Kelly Field, San Antonio, Texas.

And others to which Defendant has not now the names, addresses, or other data, and which data it prays leave to furnish when sufficiently informed thereof.

Wherefore, The defendant prays that the Bill of Complaint herein be dismissed upon the merits with costs, and that Defendant have such other relief and premises as may be just.

THE PACIFIC MARINE SUPPLY COMPANY

By S. V. BECKWITH

HAZARD & MILLER

FRED H. MILLER

Attorneys for Defendant.

G. E. STEINER

Of Counsel. [11]

[Title of District Court and Cause.]

VERIFICATION.

State of Washington,
County of King.—ss.

S. V. Beckwith, being first duly sworn, deposes and says: that he is Secretary of The Pacific Marine Supply Company, the Defendant in the above entitled action; that he has read the foregoing

answer and knows the contents thereof, and that the same is true of his own knowledge except as to the matters herein stated to be alleged upon information and belief and as to those matters he believes it to be true.

Deponent further says that the reason this verification is made by Deponent and not by the Defendant is because said Defendant is a corporation.

S. V. BECKWITH

Subscribed and sworn to before me this 13 day of Nov. 1933.

[Seal] G. E. STEINER

Notary Public in and for the State of Washington, County of King.

[Endorsed]: Filed Nov. 13, 1933. [12]

[Title of District Court and Cause.]

AMENDMENT TO ANSWER OF DEFENDANT.

IX.

The defendant, as a second affirmative defense, answering upon information and belief, alleges that the said Letters Patent and each of the claims particularly noted in paragraph V of the bill of complaint are void and have no force and effect because the alleged invention and improvement claimed therein and covered thereby and each and every substantial and material part thereof, was, long prior to any invention or discovery thereof by said Griffiths, patented and described in the following patents or printed publications:

UNITED STATES PATENTS:

Jarvis	329,313	October 27, 1885
Arnold	1,195,431	August 22, 1916
Hinze	1,594,521	August 3, 1926
Deitz and Wayne	133,969	December 17, 1872
Ritschke	1,497,028	June 10, 1924
Ellis	999,490	August 1, 1911
Balke et al	1,468,222	September 18, 1923
Dunwoody et al	1,187,890	June 20, 1916
Linsay	1,493,207	May 6, 1924
Eckstein	458,157	August 25, 1891
Hyatt and Blake	89,582	May 4, 1869
Reagles	311,203	January 27, 1885
Graul	1,652,353	December 13, 1927
Black	1,294,355	February 11, 1919
Merrick	1,203,229	October 31, 1916
Pierson	65,267	May 28, 1867

[13]

BRITISH PATENTS:

Mennons	2,775	November 13, 1860
Bulling	169,177	December 18, 1922
A. De Pont	24,790	November 5, 1896
Thompson	27,534	November 23, 1897
Oblasser et al	19,242	October 26, 1892
Meyer	19,735	1908
Oliver	17,001	July 20, 1895
Hermet	6,473	1895
Lengfellner	26,033	July 1, 1909
Balke et al	154,157	March 17, 1922
Koln-Rottweil Aktiengesellschaft	156,095	December 22, 1920

GERMAN PATENTS:

U. Marga	85,235	January 30, 1896
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FRENCH PATENTS:

Matas y Rodes	349,782	December 31, 1904
Charual	463,156	October 2, 1913
Societe Anonyme Nouvelle L'oyonnithe	465,345	November 26, 1913

PUBLICATIONS:

Engineering, dated December 9, 1921, published at 35 and 36 Bedford Street, Strand, London, W. C. 2, England, page 785.

Engineer, dated March 3, 1922, published at 28 Essex Street, Strand, London, W. C. 2, England, pages 230 and 231.

X.

As a third affirmative defense, defendant alleges, on information and belief, that the Letters Patent in suit and particularly those claims thereof noted in paragraph V of the bill of complaint are invalid and void in that Manfred Ethelwold Griffiths was not the first and original inventor of improvements in plastic compositions in that the same plastic compositions and all substantial parts thereof were known to and in public use by the following named persons in the United States prior to the alleged invention by said Griffiths and more than two years prior to the filing of the alleged application for Letters Patent:

E. S. Webb, now residing at San Bernardino, California; place of knowledge and use: Kelly Field, near San [14] Antonio, Texas.

Murray C. Tunison, Elsinore, California; place of knowledge and use: Alameda and Oakland, California.

Joseph J. Graff, Los Angeles, California; place of knowledge and use: Kelly Field, San Antonio, Texas.

M. C. Pinnell, Calexico, California; place of knowledge and use: Kelly Field, San Antonio, Texas.

H. C. Roller, Glendale, California; place of knowledge and use: Glendale, California.

Ted Hoffman, Glendale, California; place of knowledge and use: Chicago, Illinois; also a government flying field in Texas.

Frank J. Bush, Los Angeles, California; place of knowledge and use: Hollywood, California, and Seattle, Washington.

Larry Brown, Los Angeles, California; place of knowledge and use: Los Angeles, California.

XI.

As a fourth affirmative defense, defendant alleges, upon information and belief, that said Letters Patent and particularly the claims thereof as noted in paragraph V of the bill of complaint are invalid and void for the reason that the patentee was not the original, or first, or any inventor thereof, in that the same and all material and substantial parts thereof were invented prior to the alleged invention by the said patentee by:

William G. Linsay, Newark, New Jersey.

William F. Graul, Northhampton, Massachusetts.

Paul Bock and Gustav Leysieffer, Troisdorf, near Cologne, Germany.

Alexander Ritschke, Duneberg, Germany.

Albert Hinze, Parlin, New Jersey. [15]

XII.

Further answering, the defendant, on information and belief, avers that the claims in said Letters Patent are ambiguous and are not distinct and do not particularly point out the part, improvement, or combination which the plaintiff claims as his invention or discovery.

G. E. STEINER

HAZARD & MILLER

Attorneys for Defendant.

[Endorsed]: Filed Jan. 28, 1935. [16]

[Title of District Court and Cause.]

PETITION FOR LEAVE TO INTERVENE.

To the Honorable Judges of the District Court of
the United States for the Western District of
Washington:

The Petitioner, Webb Products Co., Inc., respectfully represents:

1. That the Petitioner, Webb Products Co., Inc., is a corporation duly organized and existing under and by virtue of the laws of the State of California, having its principal office and place of business at 216 South G Street, San Bernardino, in the County of San Bernardino, State of California.

2. That your Petitioner is, and for some years past has been, engaged in the business of manufacturing self-hardening plastic compositions and has been selling these compositions to the trade. That among the plastic compositions that your Petitioner has been manufacturing and selling are compositions made and sold under the names of "Duratite Wood Dough" and "Duratite Seam Putty", mentioned on paragraph five of the Bill of Complaint in the above entitled cause.

3. That your Petitioner is doing a large business, [17] is solvent, and is in good financial standing, and has a high credit rating in the commercial world.

4. That The Pacific Marine Supply Company, the Defendant named in the above entitled cause, is a customer of your Petitioner and has purchased from your Petitioner, as manufacturer, supplies of "Duratite Wood Dough" and "Duratite Seam Putty" for purposes of resale to the trade.

5. That your Petitioner has received a notice from The A. S. Boyle Company, the Plaintiff in the above entitled cause, to the effect that said company was the owner of letters patent No. 1,838,618 and contended that your Petitioner's products were an infringement thereof. That upon receiving such notice your Petitioner respectfully informed The A. S. Boyle Company that it had no intention of discontinuing the manufacture of its products, including such products as "Duratite Wood Dough" and "Duratite Seam Putty", with the hopes and ex-

pectations that if The A. S. Boyle Company, the Plaintiff herein, believed its letters patent No. 1,838,618 to be good and valid in law and the Defendant's products, "Duratite Wood Dough" and "Duratite Seam Putty", were an infringement thereof that The A. S. Boyle Company would institute suit directly against your Petitioner for manufacture, use and sale of said "Duratite Wood Dough" and "Duratite Seam Putty" in the United States District Court in and for the Southern District of California, Central Division.

6. That the Plaintiff herein has threatened and now *are* threatening to commence a multiplicity of actions against other customers of your Petitioner. That representatives of the Plaintiff have represented to many of your Petitioner's customers that your Petitioner's products, "Duratite Wood Dough" and "Duratite Seam Putty" were an infringement of letters patent No. 1,838.618. [18]

7. That the Plaintiff herein has commenced and is continuing a systematic attack upon your Petitioner's business in an attempt to destroy its business by intimidating your Petitioner's customers through threats of prosecution and by other unfair means, and have threatened to continue such assault upon your Petitioner's business.

8. That the Plaintiff, the A. S. Boyle Company, in pursuance of said unlawful scheme has wrongfully, wickedly, and maliciously composed, printed, published, and distributed and caused to be delivered to a large number of your Petitioner's cus-

tomers malicious circulars and advertisements and verbal communications wherein, among other things, it was falsely and maliciously asserted "This announcement is a warning to the trade that the manufacture or sale of any wood base putty containing a nitrocellulose solvent and wood flour or their equivalents is an infringement of this patent. We hereby warn any manufacturer, wholesaler, retailer, or consumer against manufacturing, purchasing, selling or using any compound that infringes this patent," and "Warning!!—We intend to prosecute infringers of the Griffiths patent to the full limit of the law." That such warning was directed to and intended to be directed against your Petitioner and that when such circulars and advertisements were delivered to customers of your Petitioner who were retailing your Petitioner's products they had the effect of intimidating such customers and causing them to solicit assurances from your Petitioner to protect them in the event of patent infringement litigation brought by the Plaintiff herein.

9. That the wrongful acts herein complained of if allowed to continue will destroy the Petitioner's business and cause it irreparable damage and injury for which your Petitioner has no adequate remedy at law. [19]

10. That your Petitioner has been advised by patent counsel that its products do not infringe the said letters patent No. 1,838,618, and that claims 5, 6, 8, 11, 13, 15, 16, 17, and 18, which are relied upon herein, are invalid and void as the subject mat-

ters of said claims were not new or original in view of the prior art.

11. That your Petitioner is directly and vitally interested in the outcome of this suit as it is directed solely against your Petitioner's product as manufacturer thereof.

12. That your Petitioner verily believes that this suit has not been brought in good faith but has been brought to inconvenience your Petitioner and has been brought primarily to influence and intimidate the trade and to cause the trade to refrain from doing business with your Petitioner; that your Petitioner is fully prepared to show to this Honorable Court by competent evidence that its product does not infringe said Letters Patent and that said Letters Patent are invalid and void for various and sundry statutory reasons and that the complaint is wholly without merit, justice or equity.

Wherefore, your Petitioner prays:

1. That it may be permitted to intervene in and become a party defendant to said suit and to file its accompanying answer.

2. That the Plaintiff, its directors, officers, agents, associates, attorneys, clerks, servants, workmen, employees, and confederates, and each of them be enjoined and restrained by a writ of injunction issuing out of and under the seal of this Honorable Court from commencing or prosecuting any further suit or suits against the customers of your Petitioner for infringement of the letters patent in suit pending the determination and outcome of this

suit, and from composing, printing, publishing, mailing, circularizing, [20] communicating, sending, or delivering any letters, circulars, advertisements, or other communications, orally or in writing, wherein there shall be contained directly or indirectly any threat to prosecute anyone on account of dealing with your Petitioner in "Duratite Wood Dough" and "Duratite Seam Putty", or wherein shall be contained any charge directly or indirectly maintaining that your Petitioner's "Duratite Wood Dough" or "Duratite Seam Putty" is an infringement of letters patent in suit pending the determination and outcome of this suit.

3. That your Petitioner may have such other and further relief as to this Honorable Court may seem just and equitable in the premises.

WEBB PRODUCTS CO. INC.,

By E. S. WEBB,

President.

HAZARD & MILLER,

FRED H. MILLER,

Attorneys for Petitioner.

.....
Of Counsel.

I hereby certify that the foregoing petition is well founded in law.

FRED H. MILLER,

Attorney for Petitioner. [21]

VERIFICATION.

State of California,
County of Los Angeles—ss:

E. S. Webb, being duly sworn, deposes and says: that he is the president of Webb Products Co., Inc., the corporation named in the within entitled petition: that he has read the foregoing petition and knows the contents thereof and that the same is true to his own knowledge except as to matters herein stated to be alleged upon information and belief and as to those matters he believes it to be true.

Deponent further says that the reason this verification is made by deponent and not by the Petitioner is because the said Petitioner is a corporation, and the grounds of deponent's belief as to all matters in said petition not stated upon his own knowledge are investigations which deponent has caused to be made concerning the subject matter of this petition and information acquired by deponent in the course of his duties as an officer of said Webb Products Co., Inc., a corporation, and from the books and papers of said corporation.

Deponent further says that the attached photostatic copy, marked "Exhibit A", is a true and correct photostatic copy of one of the printed circulars which Plaintiff herein, by one of its representatives, has caused to be distributed and delivered to customers of the Petitioner. That the additional photostatic copies attached hereto are true and correct photostatic copies of letters which your Petitioner has received from its customers illus-

trating the results that the acts of the Plaintiff herein have had upon your Petitioner's customers.

E. S. WEBB.

Subscribed and sworn to before me this 7 day of November, 1933.

[Seal]

FREDA R. PAULSON,

Notary Public in and for the State of California,
County of Los Angeles.

[Endorsed]: Filed Nov. 13, 1933. [22]

[Title of District Court and Cause.]

ORDER RELATIVE PETITION OF WEBB
PRODUCTS CO., INC., FOR LEAVE TO
INTERVENE.

This matter came on to be heard in open court at this term and was argued by counsel; and thereupon, upon consideration thereof, it was

Ordered, Adjudged and Decreed as follows:

1. That the petition of the Webb Products Co., Inc. to be made a party defendant as intervener is hereby granted to the extent that said intervention is in subrogation to and in recognition of the main proceeding.

2. That the petition of Webb Products Co., Inc. for an injunction, as set forth in the prayer, paragraph 2, page 4 of the "Petition for Leave to Intervene", is hereby denied.

Dated at Seattle this 19th day of February, 1934.

EDWARD E. CUSHMAN,

United States District Judge.

O. K. as to form.

G. E. STEINER,

Atty. for Webb Products Co.

[Endorsed]: Filed Feb. 19, 1934. [23]

[Title of District Court and Cause.]

ANSWER OF INTERVENER

To the Honorable Judges of the District Court of
the United States for the Western District of
Washington:

The Intervener, Webb Products Co., Inc., for its
answer to the Bill of Complaint, respectfully
alleges:

1. The Intervener is without knowledge and is
not informed save by the Bill of Complaint herein
as to whether or not Plaintiff, The A. S. Boyle
Company, is a corporation duly organized and exist-
ing under the laws of the State of Ohio, having its
principal office and place of business at 1934 Dana
Avenue, in the City of Cincinnati, County of Ham-
ilton, State of Ohio, and, therefore, leaves Plaintiff
to its proofs thereon.

The Intervener, for the purposes of this action,
admits that it is a corporation duly organized and
existing under the laws of the State of California,

having its principal office and place of business at 216 South G Street, San Bernardino, in the County of San Bernardino, State of California.

Thereupon, this Intervener, answering the Bill of Complaint, says: [24]

1. The Intervener admits the jurisdiction of this Honorable Court but denies that it has committed any acts of infringement either within the Western District of Washington or within the State of California, or elsewhere.

2. The Intervener has no information, save by the Bill of Complaint, as to the allegations set forth in paragraph two of the Bill of Complaint, and, therefore, denies that prior to the 17th day of November, 1923, or at any other time, that Manfred E. Griffiths was the first, original, and sole inventor or discovered of any new or useful improvement in plastic compositions; denies that such alleged improvements in plastic compositions were not known or used by others in this country before his alleged invention or discovery thereof; denies that said alleged new and useful improvements were not patented or described in any printed publication in this or any foreign country before his invention or discovery thereof, or more than two years prior to his alleged application for letters patent of the United States; denies that said alleged new and useful improvements were not in public use or on sale in this country for more than two years prior to his alleged application for letters patent of the United States; and denies that said

alleged improvements had not been abandoned, nor patented nor caused to be patented by said Manfred E. Griffiths or his legal representatives or assigns in any country foreign to the United States on an application filed more than twelve months prior to the filing of his alleged application for letters patent of the United States.

This Intervener also denies that on or about November 17, 1923, the said Manfred E. Griffiths filed an application for letters patent of the United States and denies that said alleged application was filed in accordance with the then existing laws of the United States. [25]

3. In answering paragraph three of the Bill of Complaint this Intervener admits that purported letters patent of the United States, No. 1,838,618, were issued on the 29th day of December, 1931, to The A. S. Boyle Company as assignee by mesne assignments of the said Manfred E. Griffiths, but denies that the said Manfred E. Griffiths and/or the plaintiff herein complied with the conditions and requirements of the United States statutes in such cases made and provided; Intervener denies that the Plaintiff became and/or now is the exclusive owner of all the right, title and interest in and to the alleged invention covered by the said letters patent and denies that the Plaintiff has become and/or now is the exclusive owner of all the right, title, and interest in and to said letters patent.

4. The Intervener, answering paragraph four of

the Bill of Complaint is without knowledge of the allegations made in this paragraph and, therefore, denies each and every allegation contained in paragraph marked "4." leaving the Plaintiff to strict proof thereon.

5. The Intervener, in answer to paragraph five of the Bill of Complaint, admits that it is manufacturing, using, and selling plastic compositions under the names of "Duratite Wood Dough" and "Duratite Seam Putty" but denies that it has infringed upon the rights of the Plaintiff herein since the grant of Plaintiff's letters patent or at any other time, and denies that "Duratite Wood Dough" and/or "Duratite Seam Putty" embody the invention of letters patent No. 1,838,618. The Intervener further denies that it has or will continue to infringe upon the rights of the Plaintiff in said letters patent.

6. The Intervener, in answer to paragraph 6 of the Bill of Complaint, is without knowledge or information except by the Bill of Complaint herein and, therefore, denies [26] that the Plaintiff has given notice to the public that the plastic composition made and sold by Plaintiff is patented by affixing to the packages in which it is enclosed a label bearing thereon the word "Patented" together with the number "1,838,618". The Intervener admits, for the purposes of this action, that the Intervener has received written notice from the Plaintiff herein directing attention to Plaintiff's patent No. 1,838,618.

7. The Intervener denies each and every allegation of infringement or other unlawful action alleged in the Bill of Complaint which may be applied to this Intervener as Intervener.

8. As a first affirmative defense, the Intervener, answering on information and belief, alleges that the letters patent in suit are void and of no force and effect because, in view of the state of the art as known at the time of and long prior to the alleged invention or discovery, the alleged improvements did not involve invention but involved nothing more than the exercise of mere mechanical skill.

9. The Intervener, as a second affirmative defense, answering upon information and belief, alleges that the said letters patent and each of the claims, particularly noted in paragraph five of the Bill of Complaint, are void and of no force and effect because the alleged invention and improvement claimed therein and covered thereby and each and every substantial and material part thereof was, long prior to any invention or discovery thereof by the said Griffiths, patented or described in the following patents and printed publications:

UNITED STATES PATENTS:

Jarvis	329,313	October 27, 1885
Arnold	1,195,431	August 22, 1916
Hinze	1,594,421	August 3, 1926
Deitz and Wayne	133,969	December 17, 1872

Ritschke	1,497,028	June 10, 1924
Ellis	999,490	August 1, 1911
Balke and Leysieffer	1,468,222	September 18, 1923
Dunwoody and Wills	1,187,890	June 20, 1916
Lindsay	1,493,207	May 6, 1924
Ekstein	458,157	August 25, 1891
Hyatt and Blake	89,582	• May 4, 1869
Reagles	311,203	January 27, 1885
Grawl	1,652,353	December 13, 1927
Black	1,294,355	February 11, 1919
Merrick	1,203,229	October 31, 1916
Pierson	65,267	May 28, 1867

BRITISH PATENTS:

Mennens	2,775	November 13, 1860
Bulling	169,177	December 18, 1922
A. De Pont et al	24,790	November 5, 1896
Thompson	27,534	November 23, 1897

GERMAN PATENT:

U. Marga	85,235	1893
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PUBLICATIONS:

“Engineer” dated March 3, 1922, published at 28 Essex Street, Strand, London, W. C. 2, pages 230 and 231.

And others to which the Intervener has not now the dates, numbers and patentees thereof, or the names of the publications, titles, and authors identifying the same and which defendant prays leave to furnish when sufficiently informed thereof.

10. As a third affirmative defense Intervener avers, on information and belief, that the letters

patent in suit are invalid and void in that Manfred Ethelwold Griffiths was not the original or first inventor of the alleged improvements in plastic compositions in that the same plastic compo- [28] sitions and all substantial parts thereof were known to and in public use by the following named persons in the United States prior to the alleged invention by the said Griffiths and more than two years prior to the filing of the alleged application for letters patent:

E. S. Webb, now residing at San Bernardino, California; place of knowledge and use: Kelly Field, near San Antonio, Texas.

Murray C. Tunison, Elsinore, California; place of knowledge and use: Alameda, California.

Joseph J. Graf, Los Angeles, California; place of knowledge and use: Kelly Field, San Antonio, Texas.

M. C. Pinnell, Calexico, California; place of knowledge and use: Kelly Field, San Antonio, Texas.

And others to which Intervener has not now the names, addresses, or other data, and which data it prays leave to furnish when sufficiently informed thereof.

Wherefore, the Intervener prays that the Bill of Complaint herein be dismissed upon the merits with

costs, and that Intervener have such other relief and premises as may be just.

WEBB PRODUCTS CO., INC.
By E.S. WEBB
President.

HAZARD & MILLER
FRED H. MILLER
Attorneys for Intervener.

G. E. STEINER
Of Counsel. [29]

[Title of District Court and Cause.]

VERIFICATION

State of California,
County of Los Angeles—ss:

E. S. Webb, being first duly sworn, deposes and says: that he is president of Webb Products Co., Inc., the Intervener in the above entitled action; that he has read the foregoing answer and knows the contents thereof, and that the same is true to his own knowledge except as to the matters herein stated to be alleged upon information and belief and as to those matters he believes it to be true.

Deponent further says that the reason this verification is made by Deponent and not by the Intervener is because said Intervener is a corporation.

E. S. WEBB

Subscribed and sworn to before me this 7th day of November, 1933.

[Seal] FRED A. PAULSON
Notary Public in and for the State of California,
County of Los Angeles.

[Endorsed]: Filed Nov. 13, 1933. [30]

[Title of District Court and Cause.]

AMENDMENT TO ANSWER OF
INTERVENER

IX.

The intervener, as a second affirmative defense, answering upon information and belief, alleges that the said Letters Patent and each of the claims particularly noted in paragraph V of the bill of complaint are void and have no force and effect because the alleged invention and improvement claimed therein and covered thereby and each and every substantial and material part thereof was, long prior to any invention or discovery thereof by said Griffiths, patented and described in the following patents or printed publications:

UNITED STATES PATENTS:

Jarvis	329,313	October 27, 1885
Arnold	1,195,431	August 22, 1916
Hinze	1,594,521	August 3, 1926
Deitz and Wayne	133,969	December 17, 1872
Ritschke	1,497,028	June 10, 1924
Ellis	999,490	August 1, 1911
Balke et al	1,468,222	September 18, 1923
Dunwody et al	1,187,890	June 20, 1916
Linsay	1,493,207	May 6, 1924
Eckstein	458,157	August 25, 1891
Hyatt and Blake	89,582	May 4, 1869
Reagles	311,203	January 27, 1885
Graul	1,652,353	December 13, 1927
Black	1,294,355	February 11, 1919
Merrick	1,203,229	October 31, 1916
Pierson	65,267	May 28, 1867

BRITISH PATENTS:

Mennons	2,775	November 13, 1860
Bulling	169,177	December 18, 1922
A. De Pont	24,790	November 5, 1896
Thompson	27,534	November 23, 1897
Oblasser et al	19,242	October 26, 1892
Meyer	19,735	1908
Oliver	17,001	July 20, 1895
Hermet	6,473	1895
Lengfellner	26,033	July 1, 1909
Balke et al	154,157	March 17, 1922
Koln-Rottweil Aktiengesellschaft	156,095	December 22, 1920

GERMAN PATENTS:

U. Marga	85,235	January 30, 1896
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FRENCH PATENTS:

Matas y Rodes	349,782	December 31, 1904
Charual	463,156	October 2, 1913
Societe Anonyme Nouvelle L'onoynnithe	465,345	November 26, 1913

PUBLICATIONS:

Engineering, dated December 9, 1921, published at 35 and 36 Bedford Street, Strand, London, W. C. 2, England, page 785.

Engineer, dated March 3, 1922, published at 28 Essex Street, Strand, London, W. C. 2, England, pages 230 and 231.

X.

As a third affirmative defense, intervener alleges, on information and belief, that the Letters Patent in suit and particularly those claims thereof noted in paragraph V of the bill of complaint are invalid

and void in that Manfred Ethelwold Griffiths was not the first and original inventor of improvements in plastic compositions in that the same plastic compositions and all substantial parts thereof were known to and in public use by the following named persons in the United States prior to the alleged invention by said Griffiths and more than two years prior to the filing of the alleged application for Letters Patent:

E. S. Webb, now residing at San Bernardino, California; place of knowledge and use: Kelly Field, near San Antonio, Texas. [32]

Murray C. Tunison, Elsinore, California; place of knowledge and use: Alameda and Oakland, California.

Joseph J. Graff, Los Angeles, California; place of knowledge and use: Kelly Field, San Antonio, Texas.

M. C. Pinnell, Calexico, California; place of knowledge and use: Kelly Field, San Antonio, Texas.

H. C. Roller, Glendale, California; place of knowledge and use: Glendale, California.

Ted Hoffman, Glendale, California; place of knowledge and use: Chicago, Illinois; also a government flying field in Texas.

Frank J. Bush, Los Angeles, California; place of knowledge and use: Hollywood, California, and Seattle, Washington.

Larry Brown, Los Angeles, California; place of knowledge and use: Los Angeles, California.

XI.

As a fourth affirmative defense, intervener alleges, upon information and belief, that said Letters Patent and particularly the claims thereof as noted in paragraph V of the bill of complaint are invalid and void for the reason that the patentee was not the original, or first, or any inventor thereof, in that the same and all material and substantial parts thereof were invented prior to the alleged invention by the said patentee by:

William G. Linsay, Newark, New Jersey.

William F. Graul, Northampton, Massachusetts.

Paul Bock and Gustav Leysieffer, Troisdorf, near Cologne, Germany.

Alexander Ritschke, Duneberg, Germany.

Albert Hinze, Parlin, New Jersey. [33]

XII.

Further answering, the intervener, on information and belief, avers that the claims in said Letters Patent are ambiguous and are not distinct and do not particularly point out the part, improvement, or combination which the plaintiff claims as his invention or discovery.

HAZARD & MILLER

G. E. STEINER

Attorneys for Intervener.

[Endorsed]: Filed Jan. 28, 1935. [34]

[Title of District Court and Cause.]

MOTION FOR ORDER REQUIRING INTERVENER TO ANSWER INTERROGATORIES AND FURNISH FURTHER AND BETTER PARTICULARS.

Comes now the Plaintiff, A. S. Boyle Company, by and through its attorneys of record and moves the Court for an Order:

I.

Directing that the Intervener, Webb Products Co., Inc. answer Plaintiff's reframed interrogatories 1 to 6, inclusive, or in the alternative and in lieu of answering said interrogatories 1 to 6, inclusive, answer Plaintiff's interrogatories 7 to 9, inclusive.

II.

Directing that the Intervener, Webb Products Co., Inc. within thirty (30) days from the date hereof, file a statement as to the approximate dates of any prior use alleged by it in its answer, a description of the thing or things, its ingredients and where—if at all—any such composition so used can now be found and inspected. If the Intervener has no knowledge concerning any of these required particulars, its statement to such effect will be sufficient excuse for not furnishing such particular or particulars.

G. WRIGHT ARNOLD

CLINTON L. MATHIS

Solicitors for Plaintiff

Seattle, Washington, November 5, 1934.

[Endorsed]: Filed Nov. 5, 1934. [35]

[Title of District Court and Cause.]

ORDER ON PLAINTIFF'S MOTION REQUIRING INTERVENER TO ANSWER INTERROGATORIES AND TO FURNISH FURTHER AND BETTER PARTICULARS.

It is hereby ordered by the Court that E. S. Webb, President of Webb Products Co., Inc., Intervener, is required to answer, under oath, Plaintiff's reframed interrogatories numbered 1 to 5, inclusive, or at the Intervener's option in lieu of answering said reframed Interrogatories 1 to 5, Intervener may answer interrogatories numbered 7 & 8. Said E. S. Webb is required to answer said interrogatories as aforesaid, unless some other officer of said Intervener corporation has better knowledge of the facts as to any particular interrogatory, in which case, such other officer is required to make answer thereto under oath.

It is further ordered by the Court that the Intervener be required within thirty days from the date hereof to file a statement as to the approximate dates of any prior use alleged by it in its answer, a description of the thing or things, its ingredients and where—if at all—any such composition so used can now be found and inspected. If the Intervener has no knowledge concerning any of these required particulars, its statement to such effect will be sufficient excuse for not furnishing [36] such particular or particulars.

Dated at Tacoma this 19th day of Nov., 1934.

EDWARD E. CUSHMAN

United States District Judge.

Defendant excepts to the foregoing order requiring of it such bill of particulars and its exception is allowed.

EDWARD E. CUSHMAN

Dist. Judge.

Presented by Plaintiff.

G. WRIGHT ARNOLD

CLINTON L. MATHIS.

[Endorsed]: Filed Nov. 19, 1934. [37]

[Title of District Court and Cause.]

INTERROGATORIES TO DEFENDANT
UNDER EQUITY RULE 58.

Now Comes the plaintiff, by its attorneys and in pursuance of Equity Rule 58, and by Order of the Court entered herein. requires the defendant, The Pacific Marine Supply Company, by its Secretary, S. V. Beckwith, or such other officer as may have better knowledge of the facts, to answer on or before Dec. 19, 1933 the following interrogatories for the discovery of facts material to the support of plaintiff's cause; objections, if any, to be filed on or before.

1. Do the compositions of matter used and sold by the defendant since December 29, 1931, and prior to the filing of the Bill of Complaint herein under

the name of "Duratite Wood Dough" and "Duratite Seam Putty" contain nitrocellulose? If so, state the percentage by weight in each composition.

[38]

2. Do the compositions of matter used and sold by the defendant since December 29, 1931, and prior to the filing of the Bill of Complaint herein under the name of "Duratite Wood Dough" and "Duratite Seam Putty" contain a volatile liquid? If so, give the commercial designation of said volatile liquid and the percentage by weight in each composition.

3. Do the compositions of matter used and sold by the defendant since December 29, 1931, and prior to the filing of the Bill of Complaint herein under the name of "Duratite Wood Dough" and "Duratite Seam Putty" contain a non-drying oil? If so, give the description and commercial designation of said non-drying oil and the percentage thereof by weight of each composition.

4. Do the compositions of matter used and sold by the defendant since December 29, 1931, and prior to the filing of the Bill of Complaint herein under the name of "Duratite Wood Dough" and "Duratite Seam Putty" contain a resinous matter? If so, give the description and commercial designation of said resinous matter and the percentage by weight in each composition.

5. What is the description and commercial designation of the filler contained in the compositions of matter sold by the defendant under the name

“Duratite Wood Dough” and “Duratite Seam Putty”? What is the percentage by weight of said filler in each composition?

6. What is the description and commercial designation of the inorganic material contained in the compositions of matter sold by the defendant under the name of “Duratite Wood Dough” and “Duratite Seam Putty”? What is the percentage by weight of said inorganic material in each composition? [39]

If defendant prefers, the following interrogatories may be answered in place of the foregoing:

7.

Does the following analysis state correctly the ingredients and percentage of the compositions of matter used or sold by defendant under the name of “Duratite Wood Dough” since December 29, 1931, and prior to the filing of the Bill of Complaint herein? If not correct, state the correct analysis:

“DURATITE WOOD DOUGH”

	Percentage by weight
Solvent	34. Acetone 27.3%) Methyl)34% Alcohol 5.1%) Camphor 1.6%)
Nitrocellulose	8.
Resins and non-drying oil	5.
Filler	22.
Inorganic Material	30.

8.

Does the following analysis state correctly the ingredients and percentage of the compositions of matter used or sold by defendant under the name of "Duratite Seam Putty" since December 29, 1931, and prior to the filing of the Bill of Complaint herein? If not correct, state the correct analysis.

"DURATITE SEAM PUTTY"

	Percentage by Weight
Solvent	44. Acetone .4%)
	Methyl)
	Alcohol 16.3%)
	Ethyl)
	Alcohol 5.2%) 44%
	Butyl)
	Acetate .4%)
	Butyl)
	Alcohol 14.1%)
	Toluene 7.5%)
Nitrocellulose	12.
Resins and non-drying oil	10.
Filler	19.
Inorganic Material	14.

[40]

9. State the commercial description of each of the ingredients contained in the compositions of matter used or sold by the defendant since December 29, 1931, and prior to the filing of the Bill of

Complaint herein under the name "Duratite Wood Dough" and "Duratite Seam Putty".

S. V. Beckwith, Secretary of The Pacific Marine Supply Company, is required to answer under oath all of the above interrogatories numbered 1 to 6 inclusive, or alternatively numbers 7 to 9 unless some other officer of the defendant corporation has better knowledge of the facts as to any particular interrogatory, in which case such other officer is required to make answer thereto under oath.

(Sgd.) G. WRIGHT ARNOLD,
GEORGE P. DIKE,
CLINTON L. MATHIS
Solicitors for Plaintiff

MACLEOD, CALVER, COPELAND & DIKE
Seattle, Wash.
Boston, Mass.
Nov. 27, 1933.

[Endorsed]: Filed Nov. 27, 1933. [41]

ORDER

It is hereby Ordered by the Court that plaintiff have leave to file the interrogatories hereto annexed to be answered on or before Dec. 26, 1933, as provided by Equity rule #58 by the defendant, by its Secretary, S. V. Beckwith, or such other officer

thereof as may have better knowledge of the facts; unless duly objected to on or before Dec. 18, 1933.

Nov. 29, 1933.

JEREMIAH NETERER

United States District Judge

O. K.

G. E. STEINER

Atty for Deft.

O. K.

G. WRIGHT ARNOLD

Atty for Plaintiff.

[Endorsed]: Filed Nov. 29, 1933. [42]

[Title of District Court and Cause.]

ANSWERS TO INTERROGATORIES BY
INTERVENER

Now Comes the Intervener, Webb Products Co., Inc., and in answer to the interrogatories propounded herein by plaintiff, elects to answer interrogatories 7 and 8, interrogatory 9 not being required to be answered.

7.

The answer to interrogatory 7 is "No." The correct analysis of Duratite Wood Dough is as follows:

solvents	41% by weight
nitrocellulose	10.5% by weight
gums and oils	5.7% by weight
filler	11.5% by weight
inorganic materials	31.3% by weight

8.

The answer to interrogatory 8 is "No." The correct analysis of Duratite Seam Putty is as follows:

	Colored	White
Solvent	42.5%	40%
nitrocellulose	16.4%	15.3%
gums and oils	19.8%	18.3%
filler	10.7%	10%
inorganic materials	10.6%	16.7%

C. S. CORKHAM [43]

County of San Bernardino
State of California—ss:

C. S. Corkham, being first duly sworn, deposes and says that he is secretary-treasurer of Webb Products Co., Inc., the intervener in the above-entitled answer; that the foregoing answers to interrogatories 7 and 8 are true to the best of affiant's knowledge and belief.

C. S. CORKHAM

Subscribed and sworn to before me this 23rd day of Jan., 1935.

[Seal]

FREDA R. PAULSON

Notary Public in and for the County of Los Angeles, State of California.

[Endorsed]: Filed Jan. 28, 1935. [44]

[Title of District Court and Cause.]

PARTICULARS OF INTERVENER

Now Comes the Intervener and files a statement in compliance with the memorandum ruling upon plaintiff's motion for further and better particulars as to prior uses alleged by it in its answer.

E. S. Webb in 1918 and 1919, at Kelly Field, Texas, made a composition consisting of "wing dope" (nitrocellulose dissolved into solvent) mixed with wood sandings. This composition was used to fill small depressions in airplane propeller tips. No samples of such composition are now available to be found and inspected insofar as the intervener is aware.

Murray C. Tunison made a composition at Oakland, California, during the year 1914, of film and celluloid scrap dissolved in a solvent acetone and mixed with wood meal. This was used for various types of repairs. No samples which can be inspected are now available insofar as the intervener is aware.

Joseph J. Graff and M. C. Pinnell, both indulged in the same practices with and without small variations from that previously described in connection with E. S. Webb, at [45] the same time and place. No samples are now available insofar as the intervener is aware.

H. C. Roller, now in Glendale, California, made a composition in 1914 including nitrocellulose, a solvent, and finely divided wood. This was used to re-

pair wood generally. A sample of this composition is available and may be inspected at the H. C. Roller Laboratories, Orange Street, Glendale, California.

Ted Hoffman, now located c/o Lockheed Aircraft Company, Glendale, California, made a composition including wing dope and finely divided wood and used the same in 1918 at the Great Lakes Training Station, Chicago, Illinois. This was used to repair depressions in wood and in air plane propellers. No samples are available at the present time of which intervener is aware.

Frank J. Bush, now associated with the General Electric Company of Los Angeles, engaged in a similar practice to that above described in connection with E. S. Webb during 1918 and 1919 at Kelly Field, Texas. No sample is now available as far as intervener is aware.

Edwin Frazee made compositions including nitro-cellulose dissolved in a solvent mixed with finely divided wood and castor oil in 1914 and years following in Hollywood, California, and Seattle, Washington. The composition was used to mold small figures in moving picture work. No samples of the material are now available of which intervener is aware, but pictures of figures made of the composition are available and may be inspected at the place of business of Edwin Frazee on Sunset Boulevard, Hollywood, California.

Larry Brown, now connected with Monasco Motors, Los Angeles, California, in 1912 and years following, in Los Angeles, California, made compo-

sitions including nitro- [46] cellulose dissolved with a solvent and mixed with finely divided wood with and without a plasticizer. No samples of this composition are now available insofar as intervener is aware.

HAZARD & MILLER

Attorneys for Intervener.

Copy received this 28th day of January, 1935.

G. WRIGHT ARNOLD

By E. BAUER.

[Endorsed]: Filed Jan. 28, 1935. [47]

[Title of District Court and Cause.]

PARTICULARS OF DEFENDANT

Defendant has no knowledge concerning the required particulars as required in the memorandum ruling upon plaintiff's motion for further and better particulars but, instead, has relied upon the intervener to actively conduct the defense of this cause on defendant's behalf and, therefore, adopts those particulars set up by the intervener herein.

(Signed) S. V. BECKWITH

Secretary, The Pacific Marine
Supply Company.

(Signed) G. E. STEINER

Of Counsel for defendant.

[Endorsed]: Filed Jan. 28, 1935. [48]

[Title of District Court and Cause.]

ANSWERS TO INTERROGATORIES BY THE
DEFENDANT

Now Comes S. V. Beckwith, Secretary of The Pacific Marine Supply Company, and in answer to the interrogatories propounded herein by plaintiff, states:

S. V. Beckwith does not know the exact nature of the compositions sold to The Pacific Marine Supply Company by the intervener, Webb Products Co., Inc., under the name of "Duratite Wood Dough" and "Duratite Seam Putty", and does not believe that any other person connected with the defendant corporation is any better informed as to the nature of these compositions than S. V. Beckwith. Not knowing the nature of these compositions, S. V. Beckwith is unable to answer any of the interrogatories propounded and, therefore, adopts as answers to the interrogatories propounded the answers made to the same interrogatories by Intervener, Webb Products Co., Inc.

S. V. BECKWITH

State of Washington

County of.....—ss:

S. V. Beckwith, being first duly sworn, deposes and says that he is secretary of The Pacific Marine Supply Company; that the foregoing statement is true to the best of affiant's knowledge and belief.

S. V. BECKWITH

Subscribed and sworn to before me the 28th day of Jany. 1935.

[Seal] G. E. STEINER

Notary Public in and for the State of Washington,
County of.....

[Endorsed]: Filed Jan. 28, 1935. [49]

[Title of District Court and Cause.]

ORDER FOR ISSUANCE OF COMMISSION

This cause coming on to be heard on the petition of plaintiff for a Dedimum potestatem to take the testimony of Manfred E. Griffiths and Ernest Caizley Murray, material witnesses for the plaintiff residing at Stowmarket, Suffolk, England, and other witnesses, both parties being represented by counsel, it is the opinion of the Court that the petition should be granted and it is hereby

Ordered that a commission issue in this cause out of this Court directed to Edwin Courtney Walker or Joseph Phillips Crawley, notaries public and commissioners for oaths, at 53 and 54 Chancery Lane, London, W. C. 2, England, authorizing him to take the deposition of Manfred E. Griffiths of Stowmarket, Suffolk, England and of Ernest Caizley Murray of Stowmarket, Suffolk, England, and other witnesses, at London, upon the interrogatories and cross-interrogatories to be attached hereto, as prayed for in said petition. [50]

It is further ordered that due notice of the time and place of said examination be given to counsel of both parties.

Either party to this action shall have the liberty not only to examine the witnesses herein named but any other witnesses that either party may have, at the place aforesaid, provided that the names and places of residence of said witnesses shall be given to the attorney of the opposit side five days before such examination.

It is further ordered that the testimony given under such examination shall be reduced to writing, signed by the witnesses, certified by the said Commissioner, and returned by him by mail to the Clerk of this court at the City of Seattle, Washington, U. S. A.

It is further ordered that all testimony taken under this commission provided for herein shall be taken subject to all legal objections at the trial of this action.

EDWARD E. CUSHMAN

U. S. D. J.

Dated: 1935.

[Endorsed]: Filed Nov. 11, 1935. [51]

[Title of District Court and Cause.]

COMMISSION TO TAKE TESTIMONY

In the District Court of the United States for the Western District of Washington:

The President of the United States of America to Edwin Courtney Walker or Joseph Phillips Crawley, Greeting:

Know ye, that we, by these presents, have appointed you a Commissioner and do give you full power and authority to examine Manfred E. Griffiths and Ernest Caizley Murray, of stowmarket, Suffolk, England, and other witnesses, under oath, as witnesses on behalf of the plaintiff in a certain cause now pending in the above court, wherein The A. S. Boyle Company is Plaintiff and The Pacific Marine Supply Company is defendant, on the interrogatories and cross interrogatories hereto attached.

And we do further empower you on the same behalf and in like manner to conduct an oral examination of any other person or persons who may be produced as witnesses before you.

And we do hereby require you, before whom such testimony is to be taken, to reduce the same to writing, and to close it up under your hand and seal and direct it to the Clerk of the above entitled court at Seattle, in the Western District of Washington, [52] U. S. A. as soon as may be after the execution of this commission; that you return the same when executed, as above directed, with the title of the

cause endorsed upon the envelope of the commission.

Witness the Honorable Edward E. Cushman,
Judge of the District Court of the United States
this 6th day of May, 1935.

[Seal]

EDGAR M. LAKIN,

Clerk

By TRUMAN EGGER

Deputy Clerk [53]

[Title of District Court and Cause.]

MEMORANDUM DECISION AFTER TRIAL.

G. WRIGHT ARNOLD and
CLINTON L. MATHIS,

1608 Smith Tower, Seattle, Wn.,

Solicitors for Plaintiff.

GEORGE P. DIKE and

C. W. PORTER, of Macleod, Calver, Copeland &
Dike,

73 Tremont St., Boston, Massachusetts,

Of Counsel for Plaintiff.

C. E. STEINER,

304 Spring St., Seattle, Wn., and

HAZARD & MILLER, Central Bldg., Los Angeles,
Calif.,

Attorneys for Defendant and Intervener.

This suit is one for infringement of Claims 5, 6,
8, 11, 13, 15, 16, 17 and 18 of Patent No. 1,838,618,

issued to Manfred Ethelwold Griffiths December 29, 1931 upon an application filed November 17, 1923. The infringement alleged is the using and selling by defendant of certain compositions under the names of "Duratite Wood Dough" and "Duratite Seam Putty".

The defendant, in its Answer, admits the sale of such compositions but denies infringement and alleges the invalidity of the patent as not involving invention, in view of the state of the art. [54]

Defendant further alleges invalidity because of anticipation by various United States, British and French patents, a German patent and various publications.

Invalidity is also alleged in that the compositions covered by the claims and all substantial parts thereof were known and in public use in the United States prior to the alleged invention and more than two years prior to the filing of the application for the letters patent.

The intervener admits the manufacture and sale of the alleged infringing compositions, denies infringement and alleges invalidity of the patent, as does the defendant.

Plaintiff Cites: American Stainless Steel Co. v. Ludlum Steel Co., 290 F. 103; Badische Anilin & Soda Fabrik v. Klipstein & Co., 125 F. R. 543; Bankers' Utilities Co. Inc. et al v. Pacific Nat. Bank et al., 18 F. (2d) 16; Barbed Wire Patent.

143 U. S. 275; *Brammer v. Schroder*, 106 F. 918; *Butler v. Burch Plow Co.*, 23 F. (2d) 15; *Carson v. American Smelting & Refining Co.*, 4 F. (2d) 463; *Claude Neon Lights Inc. v. Rainbow Light*, 47 F. (2d) 345; *Cohn v. United States Corset Co.*, 93 U. S. 367; *Diamond Rubber Co. v. Consolidated Rubber Tire Co.*, 220 U. S. 428; *Eibel Process Co. v. Minnesota & Ontario Paper Co.*, 261 U. S. 45; *Expanded Metal Co. v. Bradford*, 214 U. S. 366; *General Electric Co. v. Alexander Co.*, 277 Fed. 290; *General Electric Co. v. P. R. Mallory Co.*, 294 F. 562; *Goodwin Film & Camera Co. v. Eastman Kodak Co.*, 207 Fed. 351; *Gottschalk Mfg. Co. v. Springfield Wire & Tinsel Co.*, [55] 74 F. (2d) 583; *Grosselin Ex Parte*, 1901 Comm. Dec. 248; *Gulf Smokeless Coal Co. v. Sutton, Steel & Steel et al.*, 35 F. (2d) 433; *Hanifen v. E. H. Godschalk*, 78 F. 811; *Hanifen v. Price*, 96 F. 441; *Hildreth v. Mastoras*, 257 U. S. 27; *Hoskins Mfg. Co. v. General Electric Co.*, 212 F. 422; *J. A. Mohr & Son v. Alliance Securities Co.*, 14 F. (2d) 799; *Kings County Resin & Fruit Co. v. United States Consolidated Seeded Raisin Co.*, 182 F. 59; *Kurtz v. Belle Hat Lining Co.*, 280 Fed. 277; *National Battery Co. v. Richardson*, 63 F. (2d) 289; *O'Rourke Eng. Con. Co. v. McMullen*, 160 F. 933; *Pittsburgh Plate Glass Co. v. American Window Glass Co.*, 276 F. 197; *Proctor & Gamble Co. v. Berlin Mills Co.*, 256 F. 23; *Root Refining Co. v. Universal Oil Products Co.*, 78 F. (2d) 991; *Salt's Textile Mfg. Co. v. Tingue Mfg. Co.*, 227 F. 115; *Sandusky v. Brooklyn*

Box Toe Co., 13 F. (2d) 238; Seymour v. Osborne, 78 U. S. 516; Smith v. Goodyear Dental Vulcanite Co., 93 U. S. 486; Temeo Electric Motor Co. v. Apoo Mfg. Co., 275 U. S. 319; Trane Co. v. Nash Engineering Co., 25 F. (2d) 267; Trico Products Corp. v. Ace Products Corp., 30 F. (2d) 688; Trussell Mfg. Co. v. Wilson-Jones Co., 50 F. (2d) 1027; Wellman-Seaver Morgan Co. v. William Cramp & Sons Ship & Engine Bldg. Co., 3 F. (2d) 531; Welsbach Light Co. v. American Incandescent Lamp Co., 98 F. 616; Westinghouse Elec. & Mfg. Co. v. Wadsworth Elec. Mfg. Co., 36 F. (2d) 319; Young Radiator Co. v. Modine Mfg. Co., 55 F. (2d) 545; Corpus Juris, 48. Sec. 96; Walker on Patents, 6th Edition. Sec. 109, p. 136; Title 35, U. S. C. A., Sec. 31; Railroad Supply Co. v. Hart Steel Co., 222 Fed. 261; Hobbs v. Beach, 180 U. S. 392, 393; United States Metallic Co. v. Howitt Co., 236 Fed. 739; De Laski & [56] Thropp C. W. Tire Company v. United States Tire Company, 232 Fed. 684, 888; Individual Drinking Cup Co. v. United States Drinking Cup Co., 220 Fed. 331; Keasbey & Mattison Co. v. Philip Carey Mfg. Co., 139 Fed. 571; Canada v. Michigan Malleable Iron Co., 124 Fed. 486; Skelly Oil Co. v. Universal Oil Products Co., 31 Fed. (2d) 427; Shimadzu v. Electric Storage Battery Co., 17 F. Supp. 42-49; A. S. Boyle Co. v. Harris-Thomas Co., et al., 18 F. Supp. 177.

Defendant and Intervener cite: Abercrombie & Fitch vs. Baldwin, 245 U. S. 198; Amdur Patent Law and Practice, page 384, Section 9; American

Stainless Steel Corp. vs. Rustless Iron Corp., 2 F. Supp. 742; American Sulphite Pulp Co. vs. Holland Falls Pulp Co., 80 Fed. Rep. 398; In re Bayer, 35 Fed. (2d) 66; Browning vs. Colorado Telephone Co., 61 Fed. 845, 847; Celluloid Mfg. Co. vs. Crofut and others, 24 Fed. 796; Claude Neon Lights, Inc. vs. Rainbow Light, 47 Fed. (2d) 345; Corona Cord Tire Co. vs. Donan Chemical Corp., 276 U. S. 358; Deller, "Patent Law for Chemical and Metallurgical Industries"; Diamond Rubber Co. vs. Consolidated Rubber Tire Co., 220 U. S. 428; Doyle vs. Spaulding et al., 19 Fed. 744; 745; Emery vs. G. C. Murphy Co., 4 Fed. Supp. 575; Eskimo Pie Corp. vs. Honeymoon Pie, 25 Fed. (2d) 154-156; Eskimo Pie Corp. vs. Levous et al., 35 Fed. (2d) 120, 122; Expanded Metal Co. vs. Bradford, 214 U. S. 366; Gaylor vs. Wilder, 51 U. S. 477, 496; Ex parte Grosselin, 1901 C. D. 248; Harris vs. Stern & Lotz, 22 App. D. C. 164; Hemming, "Plastics and Molded Electrical Insulation"; Howe Machine Co. vs. National Needle Co., 134 U. S. 388, 397; McClain vs. Ortmayer, 141 U. S. 419; Meccano, Ltd. vs. John Wanamaker, 253 U. S. 136; Mettler vs. [57] Peabody Engineering Co. et al., 77 Fed. (2d) 56; Monitor Stove Co. vs. Williamson Heater Co., 282 Fed. 910; National Battery vs. Richardson Company, 63 Fed. (2d) 289; Page Steel & Wire Co. vs. The Smith Bros. Hardware Co., 64 Fed. (2d) 512; Railroad Supply Co. vs. Elyria Iron Co., 244 U. S. 285; In re Reed, 81 Fed. (2d) 869; Roemer vs. Simon, 95 U. S. 214; Ex parte Schwarz, 25 U. S. Pat. Q.

257; *Serenac Automatic Machine Co. vs. Wirebound Patents Co.*, 282 U. S. 704; *F. R. Stearns Co. vs. Russell*, 85 Fed. 218, 226; *Sewell vs. Jones*, 91 U. S. 171; *Shaw vs. Cooper*, 7 Peters 292, 8 L. Ed. 689; *Thomas vs. Reese*, 1880 C. D. 12, 17; *Tripplett vs. Lowell, et al.*, 297 U. S. 638; *U. S. Scaffolding Co. vs. Chain Belt Co.*, 254 U. S. 32; *Walker on Patents*, 6th Ed. page 115; *Wendell vs. American Laundry Machine Co.*, 239 Fed. 555, 557; *Westinghouse Machine Co. et al. vs. General Electric Co.*, 207 Fed. 75, 77; *Wilson & Dick vs. Scherts & Hamill*, 81 Fed. (2d) 755; *Westinghouse vs. Boyden*, 170 U. S. 537; *Ex parte Whitelaw*, 219 O. G. 1237, 1915 C. D. 18; *Zenithern Co. vs. Art Marble Co.*, 56 Fed. (2d) 39; *Patent Office Rule 75*; *Mast Focs Co. vs. Stover Mfg. Co.*, 177 U. S. 485, 488; 44 L. Ed. 856; *Walker on Patents*, Sixth Ed. page 327; *Naylor vs. Alsop Process Co.*, 168 Fed. 911, 917; *Loom Co. vs. Higgins*, 105 U. S. 580, 591; *Yablick v. Protecto Safety Appliance Corp.*, 21 Fed. (2d) 885; *Donner vs. Sheer Pharmacal Corp.*, 64 Fed. (2d) 217.

Cushman, District Judge:

In addition to testimony heard upon the trial the deposition of Leslie Soule, on behalf of the [58] plaintiff was taken, to which deposition defendant and intervener objected, as not being taken within the time limit specified in the Order of the Court of March 11, 1935.

The deposition was taken in June, 1935. The trial of the cause was not begun until May, 1936. It in no

way appearing that defendant or intervener was taken by surprise, no adjournment or continuance being asked and opportunity for cross examination on behalf of defendant and intervener being afforded and exercised, the objection to the deposition is overruled.

Depositions of the patentee, Manfred Ethelwold Griffiths and Ernest Caizley Murray were also taken on behalf of plaintiff, which depositions the defendant and intervener have moved to strike from the record upon the grounds that public use of an invention in a foreign country more than two years before filing an application for patent in this country, operates as an abandonment of the invention and that under the statute (Sections 4886, 4887 and 4923, Revised Statutes, Title 35, U. S. C. A., Sections 31, 32 and 72) and Patent Office Rule No. 75, invention by patentee in a foreign country more than two years prior to the date of filing application for letters patent in the United States may not be shown in support of validity and that plaintiff may not assert any date of invention earlier than an actual or constructive reduction to practice in the United States or importation into the United States of plastic wood, the composition covered by the claims of his patent.

The motion to strike these depositions is denied.

The defense of prior knowledge and public use in [59] the United States of the composition covered by the invention has not been established.

Claim 6 of the patent is as follows:

“6. A doughy putty-like plastic composition comprising nitrocellulose in a solution containing a volatile liquid *and a finely divided cellulose filler* in such proportions as to harden upon mere exposure to air to substantially the rigidity and solidity of wood, *said filler being present in not less than fifteen parts by weight.*” (Emphasis, the Court’s)

Claim 11 also contains the words of Claim 6 emphasized by the Court.

Claim 15 specifies a “finely divided wood filler” and specifies “said wood filler being present in not less than fifteen parts by weight.”

Claim 18 specifies “about 15 to about 30 percent by weight of finely divided wood”.

The evidence has shown that the alleged infringing composition sold by defendant and manufactured by intervener contains substantially less of the filler described in these claims than fifteen parts by weight.

Infringement by neither defendant nor intervener, insofar as these claims are concerned, has been shown. It is therefore unnecessary to determine the validity of these claims.

Application for the patent was filed November 17, 1923. Defendant and intervener allege “Engineering”, published December 9th, 1921 in London, England, as an anticipation. The article in this publication shown to have been prepared upon information given by the patentee of the patent in suit describes the material of the invention as follows:

“It is a collodion preparation made with very fine wood meal, and as supplied ready for [60] use is of the consistency of soft putty, and of much the colour of deal.”

If it be conceded that this description was sufficient to teach one of ordinary skill in the plastic art the composition covered by the remaining claims of the patent, yet, having been published less than two years prior to the filing of the application for patent and the evidence having shown that Griffiths' invention was prior to the date of the publication, anticipation in this respect has not been established.

Concerning the *remain* claims—which are broader claims—the defense most positively asserted is that of invalidity as a result of anticipation. Concerning infringement of these claims defendant and intervener state:

“On the question of infringement it must be conceded that such claims as are not limited to more than fifteen parts by weight of cellulose or wood filler are readable on the defendant's and intervener's composition. It is freely conceded that the defendant's composition contains nitrocellulose, a solvent therefor, and wood flour.”

The patent was issued after consideration by the patent office, its Board of Appeals and the Supreme Court of the District of Columbia and all of the claims here in suit have been held valid by the District Court in the District of Massachusetts (A. S.

Boyle Co. v. Harris-Thomas Co. et al., 18 F. Supp. 177) and are quoted in the opinion of that Court.

If any of the disclosures plead by the defendant or intervener as anticipating claims 5, 8, 13, 16 or 17 describe the composition covered by any of these claims in such full, clear terms as to enable a person reasonably skilled in the art of plastics to prepare the composition therein described, it has not been so [61] shown as to overcome the presumption of validity attending the issue of the patent after the contest waged in the Patent Office and the Supreme Court of the District of Columbia, such decision by the District Court of the District of Massachusetts and that which the evidence in the present case has shown of commercial success and numerous imitations of the composition covered by these broader claims, which matters show invention in respect to these claims, which showing has in no way been overcome by the defendant and intervener. The Court holds these claims to be valid and to have been infringed by defendant and intervener.

Any findings of fact, conclusions of law, decree or other orders, if any, embodying the foregoing rulings or resulting therefrom, will be settled upon notice.

The Clerk is directed to notify the attorneys for the parties of the filing of this decision.

[Endorsed]: Filed Sep. 25, 1937. [62]

[Title of District Court and Cause.]

ORDER DENYING PETITION FOR
REHEARING

The defendant and intervener petition the Court for a rehearing of this case, the main ground being anticipation of the patent in suit, the Griffiths patent No. 1,838,618, by the Pierson patent, No. 65267, which latter patent, it is asserted, was not considered by the Patent Office in its issue of the patent in suit, nor by the courts upholding its validity.

Clearly, while the Pierson patent may narrow the scope of certain of the claims of the Griffiths patent, it does not anticipate the claims upheld by this Court. For one thing, the claims and specifications of the Pierson patent do not disclose the "doughy, putty-like" or "dough-like and putty-like" characteristics of the composition of the claims of the Griffiths patent.

The petition for rehearing is denied.

The Clerk is directed to notify the attorneys for the parties of this Order.

Signed at Tacoma, Washington, this 7th day of January, 1938.

EDWARD E. CUSHMAN
District Judge.

[Endorsed]: Filed Jan. 7, 1938. [63]

[Title of District Court and Cause.]

**EXCEPTIONS OF DEFENDANT AND INTER-
VENOR AND ORDER ALLOWING SAME.**

The Court having heretofore on the 7th day of January, 1938 entered an Order denying the Petitions for Rehearing by the Defendant and Intervenor.

The Defendant and Intervenor by and through their counsel of record hereby except to the entrance of said Order and request that their exceptions be noted and allowed.

Dated at Seattle, this 1st day of February, 1938.

HAZARD & MILLER

G. E. STEINER

Counsel for Defendant and
Intervenor.

**ORDER NOTING EXCEPTIONS AND
ALLOWING SAME**

The above exceptions of the defendant and intervenor to the Order of the Court denying the Petitions for Rehearing are hereby noted and exceptions are allowed in favor of said Defendant and said Intervenor.

Dated at Tacoma, this 1 day of Feb., 1938.

EDWARD E. CUSHMAN

United States District Judge

[Endorsed]: Filed Feb. 1, 1938. [64]

[Title of District Court and Cause.]

AMENDED PROPOSED FINDINGS OF FACT
OF THE A. S. BOYLE COMPANY

Comes now the A. S. Boyle Company, plaintiff, and in accordance with the statement of the Court on page 9 of its Memorandum Decision, filed September 25, 1937, requests the Court to make the following special findings of fact:

1. The Court hereby adopts its Memorandum Decision or opinion filed September 25, 1937 as its special findings of fact herein, together with the hereinafter additional special findings of fact.

2. The Court finds that the plaintiff is a corporation duly organized and existing under the laws of the State of Ohio.

3. The Court finds that the defendant, The Pacific Marine Supply Company, is a corporation duly organized and existing under the laws of the State of Washington, and has a regular and established place of business within the Western District of Washington, and has committed the acts of infringement hereinafter found in the Western District of Washington. [65]

4. The Court finds that the Intervener, Webb Products Co., Inc., is a corporation duly organized and existing under and by virtue of the laws of the State of California. That said Intervener filed its Petition to Intervene November 13, 1933 and was made a party hereto by Order of this Court.

5. The Court finds that Letters Patent of the United States No. 1,838,618, dated December 29,

1931 to Manfred Ethelwold Griffiths for "Plastic Compositions" is good and valid in law as to claims 5, 8, 13, 16 and 17.

6. The Court finds that the Plaintiff, the A. S. Boyle Company is the lawful owner of said Letters Patent No. 1,838,618.

7. The Court finds that the defendant, The Pacific Marine Supply Company, has infringed upon said claims 5, 8, 13, 16 and 17 of said Letters Patent No. 1,838,618 by the sale of a plastic composition known as "Duratite Wood Dough", and the intervener has infringed upon said claims of said patent by the manufacture of said plastic composition known as "Duratite Wood Dough".

8. The Court finds that the plaintiff has given notice to the public, including the defendant and intervener herein, that the plastic composition made and sold by the plaintiff under the Letters Patent in suit is patented by affixing to the packages, in which the said product of the plaintiff is enclosed, a label bearing thereon the word "Patent", together with the number "1,838.618" as provided in Section 4900 of the Revised Statute of the United States as amended.

9. That the essential ingredients of Griffiths' composition of matter are nitrocellulose, volatile solvent and a cellulose filler. That this composition is a doughy-plastic mass [66] which can be handled like putty and molded or shaped as desired, and after exposure to the air, becomes hard and wood-

like, and in this condition may be sawn, drilled and otherwise treated like wood, but with the advantage that, unlike wood it will not splinter, split or crack.

10. That it is used for industrial purposes such as repairing defects in wood products of many kinds, for filling in irregularities and to cover joints and holes.

11. That it is extensively used by carpenters and by repairmen, and is used in the home and by the general public for repairing dented, rotted or worn devices and can be used in connection with wood, metal or practically any substance providing a clean surface.

12. That the Griffiths composition has replaced other substances in many fields. For example, it is used in place of wooden plugs to cover nail-and screw-heads in boat-building. It has replaced putty in the mending and in the construction of furniture.

13. That in many instances this composition is unique. For the first time lumber manufacturers have a material by which knots and blemishes in large quantities can be filled, making it possible to avoid the losses normally due to inferior and rejected lumber. For the first time carpenters have a means of adding on wood as well as taking it off. For the first time there is a suitable material for altering and repairing patternmaker's patterns and core boxes, for repairing carved school desks, for altering shoe lasts, for filling dents in automobile fenders and bodies. In each of these cases and in

many others, the Griffiths' composition did something which could not be done by any previously known material. [67]

14. That the Griffiths composition has met with commercial success, over two and one half million dollars' worth being sold in a period of eleven years to a public which at first had no conception of its uses and a healthy scepticism of its practicality.

15. That no comparable material has been in public use in the United States prior to the introduction of this material to the market under the Griffiths patent. It was the first real plastic wood known.

16. That as many as nineteen infringers have discontinued upon notification.

17. That there was no knowledge or public use of the invention of the Griffiths patent in the United States before the introduction by the patentee Griffiths.

18. The alleged prior art does not disclose either the material here involved or a conception of the invention or the purposes here accomplished. That none of the alleged prior art discloses a composition of matter capable of use, without modification amounting to complete reorganization, for the purposes for which the Griffiths composition has been used and that such modifications would not have been made without the exercise of the inventive faculty.

19. That the defendant and many others have since the filing of the Griffiths application November 17, 1923, placed upon the market imitations of and substitutes for the Griffiths composition of matter, all of which contain the three essential ingredients; nitrocellulose, volatile solvent and cellulose filler.

Respectfully submitted,

.....
Solicitor for the Plaintiff.

Feb. 1st, 1938, at Tacoma, Wash. The foregoing findings approved and hereby made the findings of the Court.

EDWARD E. CUSHMAN,

Judge.

[Endorsed]: Lodged Nov. 23, 1937.

[Endorsed]: Filed Feb. 1, 1938. [68]

—————
[Title of District Court and Cause.]

PROPOSED CONCLUSIONS OF LAW OF
THE A. S. BOYLE COMPANY

Comes now the A. S. Boyle Company, plaintiff, and in accordance with the statement of the Court on page 9 of its Memorandum Decision, filed September 25, 1937, requests the Court to make the following special conclusions of law:

1. The Court hereby adopts its Memorandum opinion or Decision filed September 25, 1937 as its special conclusions of law herein, together with the hereinafter additional special conclusions of law.

2. The Court concludes that United States Letters Patent No. 1,838,618, dated December 29, 1931 to Manfred Ethelwold Griffiths for "Plastic Compositions" as to claims 5, 8, 13, 16 and 17 is good and valid in law and has been infringed by the defendant, Pacific Marine Supply Company and the intervener, Webb Products Co., Inc.

3. The Court concludes that the plaintiff is entitled to the profits, gains and advantages which the defendant, intervener and each derived, received or made since December 29, 1931 by reason of their infringement of said claims of said Letters Patent, and in addition to the profits which the defendant and intervener [69] have each received and made, plaintiff is entitled to such other damages as plaintiff has suffered by reason of said infringement.

4. The Court concludes that plaintiff is entitled to the usual perpetual injunction directed to said defendant and intervener and their respective agents, restraining and enjoining them from infringing said Letters Patent in any way whatsoever.

5. The Court concludes that the plaintiff is entitled to its costs and disbursements in this suit to be taxed.

Dated at Tacoma, this 1st day of Feb., 1938.

The foregoing Conclusions of law approved and made the Conclusions of the Court.

EDWARD E. CUSHMAN

United States District Judge.

Presented by the A. S. Boyle Company, Plaintiff.

G. WRIGHT ARNOLD

GEORGE P. DIKE

CLINTON L. MATHIS

Attorneys for Plaintiff.

[Endorsed]: Lodged Nov. 24, 1937.

[Endorsed]: Filed Feb. 1, 1938. [70]

[Title of District Court and Cause.]

DEFENDANT'S AND INTERVENER'S PROPOSED FINDINGS OF FACT AND CONCLUSIONS OF LAW.

Now come the defendant and intervener and propose the following findings of fact and conclusions of law.

1.

The essential ingredients of the Griffiths composition are nitrocellulose, a volatile solvent, and a finely-divided cellulose filler (Esselen, Rep. Tr. p. 33). Claims 5 and 17 recite no other ingredients than these three. The proportions of these ingredients are not critical and for this reason these claims recite no proportions whatsoever, and are to be interpreted as being broader than Griffiths

claim 18 which restricts the filler content to between 15% and 30%.

2.

Plastic compositions composed of nitrocellulose, a volatile solvent, and cellulose filler were old and well-known long prior to Griffiths' date of invention. An example of this is to be found in the Pierson patent, defendant's Exhibit A7. [71] This is admitted by the plaintiff's expert Esselen, who testified, Rep. Tr. p. 302, ll. 9 to 14:

"Q. Well, you do find in the Pierson patent, don't you, a composition composed of nitro-cellulose in a solution containing a volatile liquid and a finely-divided cellulose filler?"

"A. Yes, * * *."

3.

The Pierson composition is stated to be "useful for statuary and moldings" which compares favorably with the Griffiths purpose stated to be "for filling, coating or moulding." (p. 1, ll. 4 and 5). The percentage of filler in Pierson, as described by him, may vary from 10% to 64%. In Griffiths the preferred percentage of filler is from 15% to 30% (p. 1, ll. 58, 59). Claims 5 and 17 of the Griffiths patent, however, being interpreted broader than claim 18, are not restricted to any particular proportions.

The plaintiff in marketing its products under the Griffiths patent adopts no particular consistency but uses consistencies in cans which differ from those in tubes (Rep. Tr. p. 275, ll. 25 et seq). The plaintiff

also puts on the market cans of solvent for use with its products wherein the user may and is expected to vary the consistency of the product at will (Rep. Tr. p. 273, line 15 to p. 275, line 2).

4.

Claims 5 and 17 are invalid as failing to define any novelty over what is admitted to be disclosed in the Pierson patent. These claims fail in the language of Revised Statute 4888 to "particularly point out and distinctly claim" any distinguishing feature over Pierson. [72]

5.

Claims 5 and 17 likewise fail to distinguish from the composition disclosed in the Oblasser patent, defendant's Exhibit A10. This is admitted by the plaintiff's expert Esselen who testified, Rep. Tr. p. 303, ll. 8 to 17:

"Q. And how about this Oblasser patent? Do you find in that patent wherein he makes up a composition, an agglomerate, don't you find presented there a composition of nitro-cellulose in a solution containing a volatile liquid and a finely-divided cellulose filler?

"A. Yes, but again with no proportions given and no suggestions as to the consistency of the mixture.

"Q. He says that could be used for moulding. That gives you some idea of the consistency, doesn't it?

"A. Yes."

6.

The plaintiff cannot complain about the lack of disclosure of definite proportions in the Oblasser or other patents relied upon by the defendant and intervener (a) because claims 5 and 17 of the Griffiths patent are not restricted to any definite proportions; (b) because there is nothing critical about the proportions as is demonstrated by the plaintiff's compositions in tubes being different from the plaintiff's compositions in cans and by the sales by plaintiff of cans of solvent for use in its compositions; (c) the plaintiff itself has represented to the trade that its patent covers all proportions of nitrocellulose solvent and cellulose filler in the following language

“any wood base putty containing nitrocellulose solvent and wood flour or their equivalents is an infringement of this patent.” (See defendant's Exhibit A2.) [73]

7.

Claims 8, 13, and 16 of the Griffiths patent differ from his claims 5 and 17 in immaterial, non-essential, and optional details, to wit, (a) the presence of a non-drying or castor oil; (b) the presence of a resinous body recited in claims 13 and 16; (c) the specification that the volatile solvent shall be acetone and not some other volatile solvent such as alcohol and ether.

8.

The use of oil in a composition of nitrocellulose is suggested by the Pierson patent wherein it is

stated "oil may often be added to advantage." Plaintiff's expert Esselen testified that the function of the castor oil was (Rep. Tr. p. 34, ll. 18 to 20):

"Q. What is the effect of the non-drying oil?

"A. The non-drying oil adds to the toughness of the composition."

Also, on page 292, ll. 17 to 19, he testified:

"Q. What is the effect of castor oil?

"A. It adds flexibility, a permanent flexibility to a compound which is made from nitro-cellulose."

9.

The addition of castor oil to compositions of nitrocellulose solvent, and finely-divided cellulose filler such as are admittedly disclosed in the Pierson and Oblasser patents to accomplish the function of reducing brittleness and increasing flexibility or toughness is not a patentable improvement but would have occurred to anyone familiar with these compositions during the years 1915, 1916, and 1917. This is admitted by the plaintiff's expert Esselen, Rep. Tr. [74] p. 64, ll. 1 to 14:

"Q. Do you believe that it would be obvious to anyone that was familiar with nitro-cellulose plastic compositions that if you wished to increase the flexibility and resiliency of the dried mass and to increase the adhesiveness that all they would have to do would be to add some castor oil and ester gum?

"A. Yes.

“Q. You believe that was true as of 1918?”

“A. Yes.

Q. In fact, during 1915, 1916 and 1917 castor oil was a well-known ingredient to use in nitro-cellulose plastic compositions to ameliorate the brittleness of the composition, wasn't it?

“A. Yes.”

If any further proof was necessary reference may be had to the Parks patent No. 2675, defendant's Exhibit A 28, who states, page 3, lines 34 et seq.

“The gun cotton compound if used alone would however become too hard and brittle to be usefully employed for many purposes, to avoid this I knead with it in a mixing machine castor oil, or it may be other similar oil, such as cotton seed oil, and this I use in proportions varying according to the degree of toughness and flexibility I desire to obtain.”

The introduction of castor oil as specified in claims 8 to 13, and 16 to accomplish its expected function cannot impart patentability to these claims. [75]

10.

The addition of the optional ingredient, to wit., a resinous body or ester gum as recited in such claims as 13 and 16 cannot impart patentability to these claims. The function of the resinous body or ester gum is stated by plaintiff's expert Esselen to be (Rep. Tr. p. 34, ll. 22 to 23):

“A. The ester gum adds to the property of adhesiveness, to make it stick.”

The Oblasser patent, defendant's Exhibit A10 suggests the use of resins, page 2, line 55. Furthermore, plaintiff's expert testified, Rep. Tr. p. 64, ll. 15 to 20:

“Q. And gum, including ester gum, was also a well-known ingredient in nitro-cellulose compositions as a means of increasing the cohesiveness and the adhesiveness of the mass, as of those year (1915, 1916, and 1917). Isn't that true?”

“A. Well, adhesiveness, yes * * *”

The addition of ester gum to the Pierson and Oblasser compositions of nitrocellulose, volatile solvent and cellulose filler to increase the adhesiveness thus was well within the realm of mechanical skill prior to Griffiths' date of invention in 1919.

11.

The recitation in claim 13 that the volatile solvent shall be acetone and not alcohol and ether cannot impart patentability to this claim. This is the mere substitution of one well-known solvent for another. The plaintiff's expert Esselen concedes that prior to 1919 acetone was well recognized as a solvent in place of alcohol and ether. He testified, Rep. Tr. p. 64, ll. 21 to 23:

“Q. Do you know whether acetone was a well-recognized [76] solvent in place of ether

and alcohol, as of those years (1915, 1916, and 1917).

“A. As to those years, yes it was.”

12.

The conclusion is that claims 5 and 17 of the Griffiths patent are admittedly anticipated by the Pierson and Oblasser patents. Claims 8, 13, and 16 differ from claims 5 and 17 in optional, immaterial ingredients, the functions of which were well known in nitrocellulose compositions of this character long prior to Griffiths' date of invention. These claims are, therefore, invalid.

13.

The plaintiff by its attorney having withdrawn Duratite Seam Putty from issue in his opening statement, page 13, ll. 4 to 9, and having offered no evidence as to the nature of Duratite Seam Putty, the Bill of Complaint should be dismissed as against this composition.

14.

Although plaintiff knew that the defendant, The Pacific Marine Supply Company, was selling a product of the intervener, Webb Products Co. Inc., and that defendant, The Pacific Marine Supply Company was not manufacturing any infringing composition of its own, Rep. Tr. p. 118, ll. 21 to 29, and although the plaintiff had communicated with the intervener prior to the institution of this suit. Rep. Tr. p. 117 and Exhibits A3 and A4. see also Rep. Tr. p. 228, ll. 6 to 13, the plaintiff elected to

sue the defendant rather than the intervener, thus placing the intervener at a great inconvenience to defend this suit. [77]

15.

The plaintiff has distributed to the trade around fifty thousand books containing warnings to the effect that any wood base putty containing nitro-cellulose solvent and wood flour or their equivalents was an infringement, Rep. Tr. p. 115, ll. 17 and 18. In addition to this, the plaintiff has distributed reprints of these warnings similar to defendants Exhibit A2, Rep. Tr. p. 115, ll. 19 to 21.

While nineteen concerns have agreed to discontinue manufacturing products alleged to infringe the plaintiff's patent, Rep. Tr. p. 104, l. 16 to p. 105, l. 7, around a dozen or a dozen and a half concerns are putting out competing products and are still putting these out regardless of the plaintiff's patent, Tr. p. 120, ll. 2 to 10. This demonstrates that the plaintiff's patent has been disregarded almost as much as it has been respected regardless of the fact that over fifty thousand warnings have been distributed among the trade.

16.

The plaintiff's sales rise and fall in direct proportion with the plaintiff's advertising, Rep. Tr. p. 119, ll. 15 to 29. See also the graph of sales with respect to advertising in the brief for the defendant and intervener. The plaintiff has advertised in

such publications as the Saturday Evening Post, Collier's, Liberty, and American Cookery, Rep. Tr. p. 119, ll. 6 to 10. The plaintiff's commercial success is largely due to its advertising ability and to its distribution of warnings against patent infringers. [78]

17.

While the plaintiff and the trade have developed a number of new uses for this composition, none of which are described in the plaintiff's patent, the Pierson and Oblasser compositions being made of the same ingredients and having the same general consistency, must necessarily be susceptible of the same uses. That the Pierson and Oblasser compositions are susceptible of similar use is demonstrated by defendant's Exhibits A34 to A45, inclusive, and A59. The Pierson and Oblasser compositions being the same as that of the plaintiff's patent, particularly as defined by claims 5 and 17 must necessarily have the same characteristics as the Griffiths composition. The plaintiff in exploiting the Griffiths patent has merely obtained a patent on a composition described in the Pierson and Oblasser patents and by skillful advertising and the adoption of a catchy trade-name, to wit, "Plastic Wood" succeeded in marketing this composition.

18.

Neither the Pierson nor the Oblasser patents were placed in evidence nor made of record in the Griffiths application while the same was pending

before the Examiner and the Board of Appeals in the Patent Office, nor were these patents placed in evidence before the Supreme Court of the District of Columbia. Had the Pierson or Oblasser patents been placed in evidence before the Supreme Court of the District of Columbia, claims 5, 8, 13, 16 and 17 would not have been logically awarded to Griffiths for the reason that they fail to patentably differ from the prior art. [79]

19.

The intervener has not undertaken to market merely an imitation of the plaintiff's product or to market a composition as described in the Griffiths patent, but instead has undertaken to market a product having a relatively high percentage of inert filler in addition to wood flour with the result that the shrinkage that creates shrinkage cracks in Plastic Wood is materially reduced, Rep. Tr. p. 231, ll. 14 to 27, and the fire hazard present in Plastic Wood is materially reduced, Rep. Tr. p. 232, ll. 4 to 9.

20.

It is concluded as a matter of law that claims 5 and 17 of the Griffiths patent No. 1,838,618 are invalid as failing to define any novelty whatsoever over what is admittedly disclosed in the Pierson and Oblasser patents. It is also concluded that claims 8, 13, and 16 are invalid for the reason that these claims, by reciting the presence of a non-drying or castor oil, the presence of a resinous body or ester gum and that the solvent employed shall

be acetone, differ from the prior art in non-essential, immaterial, and unpatentable details which are admittedly well within the realm of mechanical skill and were obvious to anyone engaged in this line of endeavor prior to Griffiths' effective date of invention.

Respectfully submitted,
G. E. STEINER
HAZARD & MILLER
FRED H. MILLER

Counsel for Defendant and Intervener

[Endorsed]: Filed Nov. 1, 1937. [80]

[Title of District Court and Cause.]

ORDER

The Defendant and Intervener's proposed Findings of Fact and Conclusions of Law having been presented to the Court and having been read to and considered by the Court, Defendant and Intervener's proposed Findings of Fact numbered 1, 2, 3, 4, 5, 6, 7, 8, 9, 10, 11, 12, 14, 15, 16, 17, 18, and 19 and Defendant and Intervener's proposed Conclusion of law numbered 20 are hereby denied.

As to Defendant and Intervener's proposed Finding of Fact number 18 the Court has separated said Finding into two paragraphs designated 18a and 18b, 18a being the first sentence of said Finding 18 and 18b being the second sentence of said Finding 18. Defendant and Intervener's proposed Finding of Fact numbered 18b is hereby denied.

Defendant and Intervener's proposed Findings of Fact numbered 13 and 18a are hereby allowed.

Dated at Tacoma, Washington, this 1st day of Feb. 1938.

EDWARD E. CUSHMAN

District Judge.

[Endorsed]: Filed Feb. 1, 1938. [81]

[Title of District Court and Cause.]

EXCEPTIONS OF DEFENDANT AND
INTERVENER

The Court having heretofore, on the 1st day of February, 1938, entered an Order denying the defendant and intervener's proposed Findings of Fact numbered 1, 2, 3, 4, 5, 6, 7, 8, 9, 10, 11, 12, 14, 15, 16, 17, 18, 18b, 19 and denying defendant and intervener's proposed conclusion of law number 20.

The Defendant and Intervener, by and through their Counsel of record, hereby except to the entrance of said Order and request that their exceptions be noted and allowed.

Dated at Tacoma, Washington, this 1st day of Feb. 1938.

HAZARD & MILLER & G. E. STEINER

Counsel for Defendant and Intervener.

ORDER NOTING EXCEPTIONS AND
ALLOWING SAME

The above exceptions of Defendant and Intervener to the Court's Order disallowing and deny-

ing the defendant and intervener's proposed Findings of Fact numbered 1, 2, 3, 4, 5, 6, 7, 8, 9, 10, 11, 12, 14, 15, 16, 17, 18, 18b, and 19 and proposed Conclusion number 20, are hereby noted and said exceptions allowed said defendant and intervener.

Dated at Tacoma, Washington, this 1st day of February, 1938.

EDWARD E. CUSHMAN

District Judge

[Endorsed]: Filed Feb. 1, 1938. [82]

United States District Court, Western District of
Washington, Northern Division

In Equity No. 1035

Letters Patent No. 1,838,618

THE A. S. BOYLE COMPANY,

Plaintiff,

vs.

THE PACIFIC MARINE SUPPLY COMPANY,

Defendant

WEBB PRODUCTS CO., INC.,

Intervener

AMENDED INTERLOCUTORY DECREE

This cause having come on to be heard upon pleadings and after trial in open court, and having considered the arguments and briefs of the respective parties, it is

Ordered, Adjudged and Decreed:

1. That Letters Patent of the United States No. 1,838,618, dated December 29, 1931, to Manfred Ethelwold Griffiths, for Plastic Compositions, is good and valid in law as to claims 5, 8, 13, 16 and 17.

2. That the plaintiff, The A. S. Boyle Company, is the lawful owner of said Letters Patent No. 1,838,618.

3. That the defendant, The Pacific Marine Supply Company, has infringed upon said claims 5, 8, 13, 16 and 17 of said Letters Patent No. 1,838,618 by the sale of a Plastic composition known as "Duratite Wood Dough" and the intervener has infringed upon said claims of said patent by the manufacture of said plastic composition known as "Duratite Wood Dough". [83]

4. That the plaintiff recover of the defendant and the intervener the profits, gains and advantages which said defendant and intervener have each derived, received or made since December 29, 1931 by reason of their infringement of claims 5, 8, 13, 16 and 17 of said Letters Patent No. 1,838,618, and in addition to the profits which the defendant and intervener have each received or made, such other damages as the plaintiff has suffered by reason of said infringement.

5. That the case be referred to a Master to be hereafter named to ascertain and state and to report to the Court on account of the said gains, profits and advantages which the defendant, The Pacific Marine Supply Company, and the intervener, Webb

Products Co., Inc., have each received or made from said infringement, and to ascertain and report the damages, if any, which the plaintiff has sustained by reason thereof, in addition to the profits which the defendant, The Pacific Marine Supply Company, and the intervener, Webb Products Co., Inc., have each received or made, or which have accrued to said defendant and intervener since December 29, 1931, and that said Master shall report the same to this Court with all convenient speed.

6. That a perpetual injunction issue out of and under the seal of this Court directed to The Pacific Marine Supply Company and the Webb Products Co., Inc., their directors, officers, associates, attorneys, clerks, agents, employees and confederates, and each of them, enjoining and restraining them and each of them until further ordered by this Court, from directly or indirectly making or causing to be made, selling or causing to be sold, or threatening to make, use or sell, or [84] in any way using or profiting from the making, using and/or selling, the said plastic composition known as "Duratite Wood Dough", made in accordance with the inventions, improvements and discoveries of claims 5, 8, 13, 16 and 17 of said Letters Patent No. 1,838,618. or in any wise infringing said Letters Patent, and from contributing to the infringement of said Letters Patent by others or conspiring with others to infringe the said Letters Patent in any way whatsoever.

7. That the plaintiff recover from the defendant, The Pacific Marine Supply Company, and the intervener, Webb Products Co., Inc., its costs of this suit to be taxed.

Tacoma, Washington
Feb. 1st, 1938.

EDWARD E. CUSHMAN

United States District Judge

Approved as to form:

.....
Attorneys for Defendant
and Intervener

.....
For Plaintiff

[Endorsed]: Lodged Nov. 23, 1937.

[Endorsed]: Filed Feb. 1, 1938. [85]

[Title of District Court and Cause.]

EXCEPTIONS OF DEFENDANT AND
INTERVENER

The Court having heretofore entered an Order allowing the proposed Findings of Fact of Plaintiff numbered 1, 2, 3, 4, 5, 6, 7, 8, 9, 10, 11, 12, 13, 14, 15, 16, 17, 18, and 19 and having further entered an Order allowing Plaintiff's proposed Conclusions of Law numbered 1, 2, 3, 4, and 5 and the Court further having entered the Amended Interlocutory Decree including paragraphs 1, 2, 3, 4, 5, 6, and 7,

Defendant and Intervener, by and through their counsel of record, hereby except to the allowance of each of said Findings of Fact and each of said Conclusions of Law and each of said paragraphs of said Interlocutory Decree and request that their exceptions be noted and allowed.

Dated at Tacoma, Washington, this 1st day of Feb. 1938.

HAZARD & MILLER and G. E. STEINER
Counsel for Defendant and Intervener.

ORDER NOTING EXCEPTIONS AND
ALLOWING SAME

The above exceptions of the Defendant and Intervener to the Order of the Court allowing Plaintiff's Findings of Fact and Conclusions of Law and plaintiff's proposed Interlocutory Decree are hereby noted and said exceptions are allowed said defendant and intervener.

Dated at Tacoma, Wash., this 1st day of Feb. 1938.

EDWARD E. CUSHMAN.
District Judge

[Endorsed]: Filed Feb. 1, 1938. [86]

[Title of District Court and Cause.]

PETITION FOR APPEAL

To the Honorable Judge of Said Court:

The above-named defendant, The Pacific Marine Supply Company and the intervener, Webb Products Co. Inc., feeling aggrieved by the Interlocutory Decree entered in the above-entitled cause on the first day of February 1938, petition that they may be permitted to take an appeal from said Interlocutory Decree to the United States Circuit Court of Appeals for the Ninth Circuit for the reasons specified in the Assignment of Errors filed herewith, and prays that its appeal be allowed and that a Citation be issued as provided by law, and that a transcript of the record, proceedings, and documents upon which said decree was based duly authenticated be sent to the United States Circuit Court of Appeals for the Ninth Circuit under the rules of such Court in such case made and provided.

And your Petitioners further pray that an Order be made fixing the amount of security for costs and for staying [87] the issuance of the Writ of Injunction and for staying the accounting which said defendant and intervener shall give and furnish upon such appeal, pending the final determination thereof.

Dated: This 4th day of February, 1938.

FRED H. MILLER

G. E. STEINER

Attorneys for Defendant and
Intervener

[Endorsed]: Filed Feb. 7, 1938. [88]

[Title of District Court and Cause.]

ASSIGNMENT OF ERRORS

Now come the Pacific Marine Supply Company defendant, and Webb Products Co., Inc. intervener, appellants in the above-entitled cause, and file the following assignment of errors upon which they will rely in the prosecution of the appeal herewith petitioned for in said cause from the Interlocutory Decree entered the first day of February 1938.

1.

The Court erred in finding that Letters Patent No. 1,838,618 issued December 29, 1931, to Manfred E. Griffiths for Plastic Composition were good and valid in law, and that claims 5, 8, 13, 16, and 17 had been infringed by the defendant and intervener.

2.

The Court erred in granting an injunction perpetually enjoining the defendant The Pacific Marine Supply Company and the intervener Webb Products Co. Inc. from directly or indirectly making, or causing to be made, selling or causing to be sold, or threatening to make, use, or sell, or in any way using or profiting from the making, using, and/or selling [89] "Duratite Wood Dough," alleged to be made in accordance with the inventions, improvements, and discoveries of claims 5, 8, 13, 16, and 17 of said Letters Patent No. 1,838,618. or in any wise infringing said Letters Patent and from contributing to the infringement of said Letters

Patent by others, or conspiring with others to infringe said Letters Patent in any way whatsoever.

3.

The Court erred in decreeing that the defendant and intervener account to the plaintiff for any gains, profits, and/or advantages which the defendant and/or intervener have received or made.

4.

The Court erred in ordering that defendant and intervener's proposed findings of fact numbered 1, 2, 3, 4, 5, 6, 7, 8, 9, 10, 11, 12, 14, 15, 16, 17; that portion of proposed finding of fact designated at 18b by the Order dated February 1, 1938; 19, and defendant and intervener's proposed conclusion of law numbered 20, be denied.

5.

The Court erred in allowing and adopting plaintiff's proposed findings of fact numbered 1, 2, 3, 4, 5, 6, 7, 8, 9, 10, 11, 12, 13, 14, 15, 16, 17, 18, and 19.

6.

The Court erred in allowing and adopting plaintiff's proposed conclusions of law numbered 1, 2, 3, 4, and 5.

7.

The Court erred in failing to hold that claim 5 of Griffiths patent No. 1,838,618 is invalid in view of the disclosure in United States Letters Patent to Pierson No. 65,267, issued May 28, 1867. [90]

8.

The Court erred in failing to hold claim 5 of Griffiths patent No. 1,838,618 invalid in view of the disclosure of the British patent to Oblasser et al. No. 19,242 of 1892.

9.

The Court erred in failing to hold claim 5 of Griffiths patent No. 1,838,618 invalid in view of the state of the art as evidenced by the following:

United States Patents

Merrick	1,203,229
Black	1,294,355
Eckstein	458,157
Deitz and Wayne	133,969
Ellis	999,490
Grawl	1,652,353
Arnold	1,195,431
Lindsay	1,493,207
Hyatt and Blake	89,582
Reagles	311,203
Jarvis	329,313
Dunwoody and Wills	1,187,890
Ritschke	1,497,028

and the British patents to:

Mennens	2,775	Nov. 13, 1860
Bulling	169,177	Dec. 18, 1922
De Pont et al	24,790	Nov. 5, 1896
Thompson	27,534	Nov. 23, 1897
Parks	2,675	Oct. 28, 1925
“	1,614	May 16, 1868

10.

The Court erred in failing to hold that claim 8 of Griffiths patent No. 1,838,618 is invalid in view of the disclosure in United States Letters Patent to Pierson No. 65,267 issued May 28, 1867.

11.

The Court erred in failing to hold claim 8 of Griffiths patent No. 1,838,618 invalid in view of the disclosure of the British patent to Oblasser et al. No. 19,242, of 1892.

12.

The Court erred in failing to hold claim 8 of Griffiths patent No. 1,838,618 invalid in view of the state of the art, particularly those patents as listed in the foregoing assignment numbered 9.

13.

The Court erred in failing to hold claim 13 invalid for lack of invention over the disclosures in the United States Letters Patent to Pierson No. 65,267 and the British patent to Oblasser et al. No. 19,242 of 1892, particularly in view of the fact that acetone was a well recognized solvent for nitrocellulose prior to the date of Griffiths' invention and that the effects of castor oil and resinous bodies or gums in nitrocellulose plastic compositions were well known and well recognized prior to the effective date of Griffiths' invention.

14.

The Court erred in failing to hold that claim 13

of the Griffiths patent No. 1,838,618 is invalid as lacking invention over the disclosures of the prior art, particularly those patents as listed in foregoing assignment numbered 9. [92]

15.

The Court erred in failing to hold claim 16 invalid for lack of invention over the disclosures in the United States Letters Patent to Pierson No. 65,267 and the British patent to Oblasser et al. No. 19,242 of 1892, particularly in view of the fact that acetone was a well recognized solvent for nitrocellulose prior to the date of Griffiths' invention and that the effects of castor oil and resinous bodies or gums in nitrocellulose plastic compositions were well known and well recognized prior to the effective date of Griffiths' invention.

16.

The Court erred in failing to hold that claim 16 of the Griffiths patent No. 1,838,618 is invalid as lacking invention over the disclosures of the prior art, particularly those patents as listed in foregoing assignment numbered 9.

17.

The Court erred in failing to hold that claim 17 of Griffiths patent No. 1,838,618 is invalid in view of the disclosure in United States Letters Patent to Pierson No. 65,267, issued May 28, 1867.

18.

The Court erred in failing to hold claim 17 of Griffiths patent No. 1,838,618 invalid in view of the disclosure of the British patent to Oblasser et al. No. 19,242 of 1892.

19.

The Court erred in failing to hold claim 17 of Griffiths patent No. 1,838,618 invalid in view of the state of the art, particularly those patents as listed in the foregoing assignment numbered 9. [93]

20.

The Court erred in failing to hold that claims 5, 8, 13, 16, and 17 of Griffiths patent No. 1,838,618 are invalid as being vague and indefinite.

21.

The Court erred in failing to hold claims 5, 8, 13, 16, and 17 of Griffiths patent No. 1,838,618 are invalid as being broader than the invention.

22.

The Court erred in failing to hold claims 5, 8, 13, 16, and 17 of Griffiths patent No. 1,838,618 are invalid for the reason that there is no foundation in the specification or any definition therein as to what constitutes a doughy, putty-like plastic composition.

23.

The Court erred in failing to hold that claims 5, 8, 13, 16, and 17 of the Griffiths patent No. 1,838,618 were invalid as being vague and indefinite as to

when a composition hardens into substantially the rigidity and solidity of wood and in failing to find that the defendant's and intervener's compositions did not harden into substantially the rigidity and solidity of gypsum.

24.

The Court erred in failing to hold that as the closest prior patents, such as the United States patent to Pierson No. 65,267 and the British patent to Oblasser et al. No. 19,242 of 1892 were not cited by the Patent Office nor considered by the Supreme Court of the District of Columbia that the presumption of validity is materially weakened, if not entirely destroyed.

25.

The Court erred in failing to hold that claims 5, 8, 13, 16, and 17 of Griffiths patent No. 1,838,618 were invalid [94] over the disclosure in the prior publication "Engineering", defendant's Exhibit A9.

26.

The Court erred in admitting the deposition of Leslie Soule in evidence.

27.

The Court erred in admitting the depositions of Manfred Ethelwold Griffiths and Ernest Caizley Murray, and refusing to strike these depositions from the record on the ground that public use of an invention in a foreign country more than two years before filing an application for a patent in

this country operates as an abandonment of the invention.

28.

The Court erred in admitting the Griffiths and Murray depositions and in refusing to strike them on the ground that prior invention in a foreign country but not in this country and not coupled with an introduction of the invention in this country cannot be used to overcome the date of the anticipating reference "Engineering".

29.

The Court erred in failing to hold, had the Examiner in the Patent Office cited the Engineering reference, defendant's Exhibit A9, that Griffiths' claims would have been forced to be refused under Patent Office Rule 75.

30.

The Court erred in holding that the defense of prior knowledge and prior public use in the United States of the invention covered by the patent has not been established.

31.

The Court erred in failing to hold that the pleaded disclosures do describe the composition as defined by claims 5, 8, 13, 16, and 17 of Griffiths patent No. 1,838,618, in such [95] full, clear terms as to enable a person reasonably skilled in the art of plastics to prepare the composition as defined by these claims.

32.

The Court erred in giving any weight to the decision of the District Court for the District of Massachusetts in *The A. S. Boyle Company vs. Harris-Thomas*, 18 Fed. Supp. 177, when that case was tried after the prior case was tried and the decision rendered after the present case was submitted, and it does not appear that the Court therein considered pertinent prior patents such as *Pier-son* patent No. 65,267, defendant's Exhibit A7, and the British patent to *Oblasser* No. 19242 of 1892, defendant's Exhibit A10.

33.

The Court erred in awarding any accounting when it appears that by applying a proper standard of comparison that the profits and/or damages to which the plaintiff would be legally settled would necessarily be negligible.

34.

The Court erred in holding that claims 5, 8, 13, 16 and 17 of *Griffiths* patent No. 1,838,618 have been infringed by either the defendant or intervener.

35.

The Court erred in failing to promptly dismiss the Bill of Complaint as soon as it was ascertained that this suit had been brought against one of the intervener's distributors whose volume of business in *Duratite Wood Dough* was very small, and that it was brought for the purpose of inconveniencing

the intervener after the plaintiff had knowledge of the intervener and its activities and had been virtually invited to assert its claims directly against the intervener. [96]

36.

The Court erred in failing to apply the doctrine that a mere change in degree from the disclosures of the prior art is not a patentable invention.

G. E. STEINER

FRED H. MILLER

Attorneys for Defendant and Intervener

[Endorsed]: Filed Feb. 7, 1938. [97]

[Title of District Court and Cause.]

ORDER ALLOWING APPEAL
WITH SUPERSEDEAS

Considering the Petition for Appeal in the above entitled cause, this day presented

It is ordered that an appeal be allowed to The Pacific Marine Supply Company, defendant herein, and Webb Products Co., Inc., intervener herein, from the Interlocutory Decree rendered against the defendant and intervener in the above entitled and numbered cause upon giving bond as required by law for the sum of Two Hundred Fifty Dollars (\$250.00); that said appeal shall be returnable to the United States Circuit Court of Appeals for the Ninth Circuit.

It is further ordered that all execution and other process upon the judgment for costs shall be stayed until the final determination of said appeal upon execution and filing of bond in the sum of One Thousand Five Hundred and no/100 Dollars (\$1500.00).

It is further ordered that all execution and other process upon the Writ of Injunction and proceedings upon the accounting, in accordance with said Decree, shall be stayed [98] until the final determination of the appeal upon the defendant and intervener executing and filing a bond in the sum of Fifteen Thousand and no/100 Dollars (\$15,000.00).

It is further ordered that a certified transcript of the record, testimony, exhibits, stipulations, and all proceedings be forthwith transmitted to and filed in the United States Circuit Court of Appeals for the Ninth Circuit according to law as prayed for.

It is further ordered that the above mentioned bonds to supersede said judgment for costs and said Injunction and said proceedings upon accounting shall be furnished on or before March 1, 1938.

It is further ordered that the bonds above ordered may be included in one or more bonds, providing it is indicated in the bond the purpose for which said bond is furnished.

Dated this 7th day of February, 1938.

EDWARD E. CUSHMAN

U. S. District Judge

[Endorsed]: Filed Feb. 7, 1938. [99]

[Title of District Court and Cause.]

BOND ON APPEAL SUPERSEDING
INJUNCTION

Know All Men by These Presents:

That the Webb Products Company, Inc., a corporation as principal, and the United States Fidelity and Guaranty Company, a corporation, as surety, are held and firmly bound unto The A. S. Boyle Company, a corporation, in the penal sum of Sixteen Thousand Seven Hundred Fifty Dollars (\$16,750.00) to be paid to the said The A. S. Boyle Company, its successors or assigns, for which payment well and truly to be made, the said Webb Products Company, Inc., and the said United States Fidelity and Guaranty Company bind themselves, their successors, and assigns jointly and severally, firmly by these presents.

The condition of the foregoing bond is such that

Whereas, the above named Webb Products Company, Inc., Intervener, and The Pacific Marine Supply Company, have taken an appeal to the United States Circuit Court of Appeals for the Ninth Circuit to reverse the Interlocutory Decree awarding an injunction and an accounting entered in the above entitled suit in the District Court for the United States for the Western District of Washington, Northern Division, on the first day of February, 1938; and

Whereas, said District Court has made an order allowing an [100] appeal to be taken by said Webb

Products Company, Inc. and The Pacific Marine Supply Company to the United States Circuit Court of Appeals from said decree and has fixed the amount of security to be given in order to obtain a supersedeas, stay of execution for costs in the District Court, costs in the Circuit Court of Appeals and stay of proceeding in the District Court pending appeal in the sum of Sixteen Thousand Seven Hundred Fifty Dollars (\$16,750.00).

Now, therefore, the condition of the above obligation is such that if the Webb Products Company, Inc., Intervener, and The Pacific Marine Supply Company, defendant, shall prosecute the said appeal to effect and shall pay to The A. S. Boyle Company (1) all damages and profits which may result from their manufacture and sale of Wood Dough, the manufacture and sale of which are by said decree enjoined, (2) all costs awarded The A. S. Boyle Company in said District Court, and (3) all costs awarded The A. S. Boyle Company in said Circuit Court of Appeals, if they shall fail to make good their plea, then this obligation shall be void, otherwise the same shall be and remain in full force and effect to the extent of Two Hundred Fifty Dollars (\$250.00) for all costs incurred in said appeal; Fifteen Hundred Dollars (\$1500.00) for all costs incurred in the above-mentioned District Court in said action, and Fifteen Thousand Dollars (\$15,000.00) for all damages and profits found in favor

of The A. S. Boyle Company upon the accounting, in accordance with said Interlocutory Decree.

[Seal] WEBB PRODUCTS COMPANY,
INC.

By G. E. STEINER

Its Attorney

[Seal] UNITED STATES FIDELITY AND
GUARANTY COMPANY

By GEORGE C. McCALLISTER

Attorney-in-Fact

I hereby approve the foregoing bond this 1st day of March, 1938.

EDWARD E. CUSHMAN

United States District Judge

3/1/38 Approved.

CLINTON L. MATHIS

One of Attys. for Pl.

[Endorsed]: Filed Mar. 1, 1938. [101]

STATEMENT OF TESTIMONY IN NARRATIVE FORM UNDER EQUITY RULE 75

The following are excerpts from the opening statement of the plaintiff's attorney Mr. Dike.

The patent was issued on its face to The A. S. Boyle Company and therefore no proof of title is necessary.

The subject matter of the patent is a plastic composition, really a wood base putty.

The essential ingredients of this material are: A nitrocellulose material, cellulose nitrate, for instance nitrated cotton, the nature of which will be explained more fully. This material is for instance the base of lacquer and varnish. It is somewhat the same as gun cotton, although it has not been nitrated as much, so material will dissolve in a suitable solvent, for instance alcohol, acetone, or mixture of those materials.

Another ingredient and an important or essential ingredient, is a solvent which makes the solution; and that solvent must be a volatile solvent which will evaporate reasonably quickly leaving the nitrocellulose to harden.

And the third ingredient is a filler. Primarily, the filler is wood flour,—that is to say wood which has been ground to the fineness of flour, so that when this material has hardened the solvent disappears, the nitrocellulose and the wood flour practically form a wood or wood-like material. That material was an entirely new thing at the time when Griffiths made his invention, as you will see from the prior art which will undoubtedly be submitted by the other side.

The Court: Is nitrocellulose supposed to furnish the fiber or bind it together?

Mr. Dike: No. The nitrocellulose is what sticks the [102] mass together.

The Court: The binding?

Mr. Dike: Yes, it is the binding. The wood flour furnishes the body of the material, the structure

you might say. The reason is that you practically have a piece of grainless wood.

Just for the purpose of illustration, the material also contains certain less essential ingredients, for instance: gums and oils, or resins and oils which are added to make it tougher and stronger.

And it has a further few important characteristics: It is very adhesive. It will stick very tenaciously, not only to another piece of wood, piece of natural wood, but it will also adhere very tenaciously to steel or glass. That is a property, you see, of the nitrocellulose solution which is exceedingly sticky. You may possibly be familiar with some cements that have come on the market in recent years. The DuPont Company make one, and these are usually a solution of nitrocellulose in a solvent, and they are used in place of liquid glue.

Now, this material can also be painted and varnished. It has been manufactured in very large quantities by the plaintiff in this case, The A. S. Boyle Company, and is sold by that company under the trade name of Plastic Wood. It is barely possible your honor may be familiar with Plastic Wood. It has been used in a great many places around the home and under various conditions.

The first use for Plastic Wood which I think occurs to most people, is to fill up holes so you can put a screw in and it will hold tightly.

Another very common use is to fill up a dent or a scratch in a piece of furniture that has been injured or [103] bruised.

The Court: It is the bread-board in our house.

Mr. Dike: Then I don't need to say much about it. Plastic Wood has gone into the households of the country.

The claims which are in suit are claims 5, 6, 8, 11, 13, 15, 16, 17, and 18. (After reading claim 5.)

Now, the "cellulose filler" there is a broad term for wood flour and it does not refer to nitrocellulose which is cotton which has been nitrated.

We were allowed certain interrogatories of the defendant as to the composition of the defendant's material and the defendant answered them. He gave solvent 41% by weight, nitrocellulose 10.5% by weight, inorganic 31.3% by weight. That is a general analysis of the Duratite Wood Dough.

I spoke about the second material which is the Duratite Seam Putty, both colored and white. We have decided not to [104] press the charge of infringement in regard to that and will proceed solely on the Wood Dough which is the subject matter of the answer to interrogatory 7. That will simplify the case very much.

Following the opening statement made by the attorney representing the defendant and intervener, in which attention was directed to the Pierson and Oblasser patents and the fact that these patents had not been cited or considered by any tribunal having jurisdiction of whether or not the patent in suit should be granted containing the claims in issue, the plaintiff offered in evidence a copy of Griffiths patent No. 1,838,618 issued December 29,

1931, as plaintiff's Exhibit 1. (A copy of this patent is included in the Bk. of Ex., page 1.)

Mr. Miller: I will stipulate that the plaintiff is a corporation for the purpose of this suit.

GUSTAVUS J. ESSELEN,

a witness called on behalf of plaintiff, testified as follows:

I am 48 years of age and live in Swamscott, Massachusetts. I am a consulting chemist in Boston. I have specialized since 1914 on the chemistry of cellulose and its derivatives. I specialized in chemistry at Harvard College as an undergraduate receiving my Bachelor's Degree in Chemistry; then spent three years in graduate work and receiving my Master's Degree and Doctor's Degree in Chemistry from Harvard. For the next two years I was in one of the research laboratories of the General Electric Company and followed that work for seven years. The biggest part of the time in manufacturing cellulose acetate and materials made from cellulose acetate and part of the time in research and development work along similar lines. Since 1921, I have been a consulting chemist and for a number of years have [105] had my own consulting research organization and laboratories in Boston.

I have read the Griffiths patent in suit.

I have here various samples, one of which is celluloid scrape. Celluloid is a material made out of nitrocellulose and camphor. There are other forms of material which physically resemble cellu-

(Testimony of Gustavus J. Esselen—direct.)

loid, such as motion picture film, and are sometimes called "celluloid" which contain other substances than the camphor; but essentially celluloid is a composition of nitrocellulose and camphor. Now, nitrocellulose is made by treating celluloid chemically. "Cellulose" is the chemical term for a substance which occurs naturally of which cotton is the finest example. Cotton is the purest form of cellulose which occurs in nature. The structural framework of the tree is also cellulose. In other words, we have cellulose in the form of wood pulp which is merely the cellulose of the tree freed from the other constituents so that the two commercial forms of pure cellulose are pure fiber wood pulp and purified cotton lint or cotton in any form. But if you treat the cotton or the purified wood pulp with a mixture of nitric sulphuric acids you get what is known as nitrocellulose. There are three forms of nitrocellulose. The nitrocellulose which contains the highest percentage of combined nitric acid is the explosive gun cotton or smokeless powder. With that we are not concerned.

There are two other kinds of nitrocellulose, one of which is used in the manufacture of celluloid of which I have a bottle here. This has the lowest amount of combined nitric acid and is used in the manufacture of nitrocellulose plastics. And the second variety which is intermediately between the plastic group and the explosive group, is used in making the nitrocellulose lacquers which have come

(Testimony of Gustavus J. Esselen—direct.)
into [106] such wide use in the past ten years. Celluloid is the result where nitrocellulose combines with camphor. And then there is the raw nitrocellulose itself which has not been combined with camphor.

The next sample that I have here is commercial Ester Gum. It is made by treating ordinary rosin with simple chemicals converting it into a simple form of synthetic resin.

The next sample is Industrial Spirit which is more or less the British name for denatured alcohol.

The next sample is Benzol. It is a volatile liquid of very nearly the same boiling point as denatured alcohol which is derived from the distillation of coal oil. I refer to the boiling point merely to bring out the point that both are volatile liquids to which reference is made in the patent.

There is a third volatile liquid mentioned which is Acetone and also later a Methyl Acetone. Methyl acetone is simply a less purer form of acetone. These are chemical substances which originally were derived from distillation of wood and now frequently made synthetically. They are even more volatile than alcohol or benzol and they constitute a very good solvent for the nitrocellulose.

Then reference is made to castor oil which is a common material of which this is a fair sample.

The samples referred to by the witness were then offered and admitted in evidence as plaintiff's Exhibit 28, Celluloid Scrap; plaintiff's Exhibit 29, Ester Gum; plaintiff's Exhibit 30, Castor Oil; plain-

(Testimony of Gustavus J. Esselen—direct.)
tiff's Exhibit 31, Industrial Spirit; plaintiff's Exhibit 32, Benzol; plaintiff's Exhibit 33, Acetone; Plaintiff's Exhibit 34, Methyl Acetone; plaintiff's Exhibit 35, Wood Flour. (These are transmitted as physical exhibits.) [107]

(The witness then read lines 12 to 22, inclusive, of the patent in suit to describe how the material is made.) When that is made you have a thick viscous solution, syrupy, perhaps, or thicker than that. To the viscous solution there is added finely ground wood flour as a filling material in the proportion of 28 parts of filler by weight, to 77 parts by weight, of solution.

This operation is usually carried on in a standard type of kneading or mixing machine much like the machine used for making bread dough in a large bread factory. When that is finished the product looks like the contents of this can of plastic wood. I have here some pieces of material which I have made from plastic wood. I have observed the manufacture of plastic wood. "Plastic Wood" is the trade-name of the product put out by The A. S. Boyle Company. Plastic Wood has an analysis approximately the same as in the example of the Griffiths patent that I read here a few minutes ago. It may be exactly. I haven't compared it recently, figure by figure, but the ingredients are the same and they are in approximately the proportions given here.

(Testimony of Gustavus J. Esselen—direct.)

The material in this can of Plastic Wood is of the general consistency of dough or putty and after it has dried it has the general properties of wood with the exception that it has no grain. These are two samples which are made from Plastic Wood illustrating the properties of the material after it has been dried. There are also two samples showing that the material is essentially similar to wood except that it has no grain. It is possible, for example, to drive nails into it, to put screws in it. There is a piece of Plastic Wood into which I have driven nails and put in a screw. (One of the samples referred to by the witness was offered in evidence as a splint made from Plastic Wood and marked plaintiff's Exhibit 37. [108] This exhibit is forwarded as a physical exhibit.) I have produced two more splints. The thinner one is made of Plastic Wood of the standard light color. One surface has been planed and there are two holes, one near each end which has been drilled in the material. The piece itself has been sawed and sandpapered and in that respect has been worked exactly as wood. It was made under my supervision. (This exhibit was offered and received in evidence as plaintiff's Exhibit 38, forwarded as a physical exhibit.)

I have here a somewhat thinner piece of light mahogany color which was made from a variety of Plastic Wood made specially to produce this particular color. This has also been sawed, one surface was planed, and two holes have been drilled in this

(Testimony of Gustavus J. Esselen—direct.)

piece. It was made under my supervision. (This piece was offered and admitted in evidence as plaintiff's Exhibit 39 and forwarded as a physical exhibit.)

I have another sample of Plastic Wood into which two nails have been driven and one screw has been screwed. (This exhibit was offered in evidence as plaintiff's Exhibit 40. It is forwarded as a physical exhibit.)

I have another piece of Plastic Wood made under my supervision which has been turned in a lathe. It was made from standard Plastic Wood. (This exhibit was offered and received in evidence as plaintiff's Exhibit 41. It is forwarded as a physical exhibit.) This upper small piece is a block of Plastic Wood which is screwed to a piece of pine by means of two screws. The screw with the ring in it only goes through about three-quarters of the way. Occasionally, I have some visitors in my laboratory, and a few weeks ago I had this fastened up over a door with a bar through here and we had a gentleman who weighed about two hundred chin himself on that bar simply to show the strength with which this screw [109] with the ring in it is held in the Plastic Wood. (This exhibit was offered and received in evidence as plaintiff's Exhibit 42. It is forwarded as a physical exhibit.)

This piece of wood with cracks in it or a saw cut in it was filled by me during my testimony. (This exhibit was offered and received in evidence as

(Testimony of Gustavus J. Esselen—direct.)
plaintiff's Exhibit 43. It is forwarded as a physical exhibit.)

The condition of the material made under the Griffiths patent before it hardened in general is of the consistency of ordinary putty. After it hardens it has the general properties and characteristics of wood except that it has no grain.

Q. What do you consider to be the essential ingredients of the formula described in the Griffiths patent?

A. The essential ingredients are nitro-cellulose and a volatile solvent and a finely divided cellulose or wood flour filler.

Q. What are the effects or the influence of the non-drying oil? What is the purpose of that or the effect of that?

A. Well, if the non-drying oil were not used, the material would dry and harden to a very brittle composition lacking in toughness.

Q. Have you ever seen any material made with the three essential ingredients and without the other two?

A. Yes, I think I have.

Q. Perhaps I can refresh your memory. Did you see any in connection with the trial in the Supreme Court of the District of Columbia, in Washington?

A. Yes, I remember in connection with that I made some.

The Court: Are you prepared to tell me what the object is of a number of solvents of the same composition? [110]

(Testimony of Gustavus J. Esselen—direct.)

A. Yes. Acetone is the real solvent, but acetone, particularly up to very recently, has been quite expensive. Denatured alcohol and benzol are cheaper, and they are simply put in there to dilute the acetone. It is largely a matter of economics, to bring the cost down. Now, these materials have to be chosen with certain properties, or they might throw the nitro-cellulose out of the solution. But denatured alcohol and benzol have the property of being miscible to a certain extent with acetone and still retain the acetone or celluloid scrap in the solution. They are simply used to bring the cost down.

Q. What is the effect of the non-drying oil?

A. The non-drying oil adds to the toughness of the composition.

Q. And the ester gum?

A. The ester gum adds to the property of adhesiveness, to make it stick.

Q. Is nitro-cellulose itself adhesive?

A. To certain surfaces, and to a limited extent.

Mr. Dike: Now I will offer in evidence the answer to interrogatory No. 7. I will read the answer,—or read the interrogatory first.

The Court: Admitted.

Mr. Dike: "Does the following analysis state correctly the ingredients and percentages of the composition of material used or sold by defendant under the name of Duratite Wood Dough since December, 1931 and prior to the filing of the bill of complaint herein? If not correct, state the correct analysis,"

(Testimony of Gustavus J. Esselen—direct.)

and below follows the analysis which was proposed. The answer to the interrogatory was: "The answer to interrogatory 7 is No." That is that the analysis proposed by the interrogatory was not correct. [111] "The correct analysis of Duratite Wood Dough is as follows: Solvent, 41% by weight; nitro-cellulose, 10.5% by weight; gums and oils, 5.7% by weight; filler, 11.5% by weight; inorganic materials, 31.3% by weight."

Q. Have you made an examination of the materials taken from cans labeled "Duratite Wood Dough?"

A. I have.

Q. What were the solvents?

A. The solvents were composed of acetone, ethyl alcohol and wood alcohol.

Q. What was the filler?

A. There were two types of filler; one was wood flour, similar to the sample offered in evidence, and one was a mineral filler which was identified as gypsum.

Q. Did you make any attempt to identify the oils and gums?

A. The oil present was castor oil.

By Mr. Dike:

Q. Will you please tell us what learned societies you belong to?

A. I am a director of the American Chemical Society; a director of the American Institute of Chemical Engineers; a member and fellow of the

(Testimony of Gustavus J. Esselen—direct.)

American Association for the Advancement of Science; also a fellow of the American Institute of Chemists, and member of the Association of Consulting Chemists and the Chemical Engineers, and a member of the Society of Chemical Industry of Great Britain.

Q. Have you any correction to make in your testimony as to the ingredients of Plastic Wood?

A. Yes. The last thing on Tuesday of last week, in answer to a question in regard to the ingredients of Plastic Wood, I stated that there were the same ingredients as [112] given here in the patent. That was true during the first years that Plastic Wood was made in this country. In the last few years a slight change has been made in the ingredients.

Mr. Miller: May I interrupt? I would like to have a better foundation as to whether this is wholly within this man's own knowledge.

Mr. Dike: He said he had seen Plastic Wood made.

The Court: You can testify, you understand, only from your own experiments and observation.

A. Your Honor, I have seen Plastic Wood made in these two different ways. I know what this is. In fact, I recommended that the change be made.

As I was saying, in the early years the Plastic Wood was made with the materials stated in the patent. Benzol—there was some thought that it was a poison—that the vapors of this might be harmful to the users. Therefore, we changed to toluol. That

(Testimony of Gustavus J. Esselen—direct.)

is a very minor change, because ordinary commercial benzol, as ordinarily purchased, contains an appreciable quantity of toluol; and toluol is simply the next adjacent member of the chemical series of which benzol is the first member. Toluol is the next. And, as I say, commercial benzol usually contains an appreciable quantity of toluol. And the other day I had forgotten that they now use toluol exclusively instead of the benzol.

Q. What is the present formula for Plastic Wood?

A. On a percentage basis, the present formula for Plastic Wood is as follows:

Celluloid scrap	12.3%
Ester gum	6.2%

3.5% of castor oil. The next item is 10.4% denatured alcohol, and the next is 22.7% of toluol, and of acetone I think that is also 22—acetone is—I am sorry, in [113] this list I have here I haven't got acetone. Acetone is about 22%.

Wood filler 22.9%.

The exact figure for acetone I will have to get later because, through an error, it is not in the formula which I have.

Q. Now in your testimony last week you said that you found acetone, ethyl alcohol and wood alcohol in the defendant's Duratite Wood Putty. Will you state whether or not these are volatile liquids?

A. These are volatile liquids.

(Testimony of Gustavus J. Esselen—direct.)

Q. Now in the patent of Griffiths a ketonic liquid is used. Will you state what you mean by a “ketonic liquid?”

A. A ketonic liquid is a liquid which contains an appreciable proportion of ketones. Ketones are a general class of organic compounds, just as alcohols are a class and esters are a class. Acetone is the simplest and most common member of the class of ketones. There are other higher ketones, but acetone is the simplest and most common member of that class of materials.

Q. Now you said that you identified the fillers you found in Duratite Wood Dough as wood flour and gypsum. What is the relative bulk of these two substances?

A. I would like to illustrate my answer, because that shows it better than mere figures. If I may have the exhibit of wood flour that I had the other day. The bulk of equal weights of wood flour and gypsum is approximately five to one, the wood flour taking up approximately five times as much space as the equal weight of gypsum.

I have in these two bottles here equal weights. This one is gypsum and this one is wood flour and that, as I say, shows very clearly the difference in bulk of the two materials. [114]

Q. The witness refers to Plaintiff’s Exhibit 35, a bottle of gypsum presented by the witness, and also to the exhibit marked Plaintiff’s Exhibit 45.

The Court: Admitted.

(Testimony of Gustavus J. Esselen—direct.)

(This was marked plaintiff's Exhibit 45 and is forwarded as a physical exhibit.)

Mr. Dike: Q. How does the bulk of the 31.3 parts of gypsum in the Duratite Wood Dough compare with the bulk of 11.5 parts of wood flour?

A. It is a little more than half the bulk of the wood flour. That is the volume normally occupied by the amount of gypsum is just a little over half that occupied by the 11.5 parts of wood flour, which is called for in the Duratite Wood Dough formula.

Q. Have you some Duratite Wood Dough here?

A. I think so.

Q. Is this it?

A. Yes, that is a sample of Duratite Wood Dough.

Q. Will you open it and show it to the Court? Look at it, Mr. Miller.

A. It has essentially the consistency of Plastic Wood.

Q. Will you compare it as to its physical properties, both before and after hardening?

A. Before hardening it has essentially the same physical properties and working properties as Plastic Wood has before hardening, as it comes in the can; and after hardening it dries down to a substance resembling wood, as does Plastic Wood.

I have here a piece of pine in which two cracks, two similar cracks, were made. One of them has been filled with Plastic Wood under my direction and the other has been filled [115] with Wood Dough under

(Testimony of Gustavus J. Esselen—direct.)

my direction, and it is almost impossible to tell by looking at them—

Mr. Dike: The block produced by the witness is offered in evidence, the same to be marked Plaintiff's Exhibit 46.

The Court: Admitted.

(It is forwarded as a physical exhibit.)

Mr. Dike: The can of Duratite Wood Dough produced by the witness is also offered in evidence as Plaintiff's Exhibit 47.

The Court: Admitted.

(It is forwarded as a physical exhibit.)

Mr. Dike: Q. Now, during your examination last week you referred to a can of Plastic Wood which was marked for identification. Where did you get that can?

A. That can was sent to me by Mr. Silbersack or at his direction from the factory of the Plastic Wood Company or The A. S. Boyle Company in Cincinnati.

Q. Have you prepared a comparative statement of the analyses of the proportions of ingredients of the formula given in lines 14 to 22 of page 1 of the Griffiths patent, the formula for Plastic Wood, and the formula for the Duratite Wood Dough given in the answer to the Plaintiff's interrogatory? If so will you produce it?

A. Just a minute, please. I notice that the stenographer left out one of the figures and I would

(Testimony of Gustavus J. Esselen—direct.)

like an opportunity to fill that in. That is the blank I had in my previous testimony, the one for acetone that was left out.

Q. Will you fill that in?

A. I will mark in here and present this tabulation. I haven't the figure with me. If I may have just a moment I can fill it in. That percentage of acetone which I couldn't [116] give exactly before, is 22%.

Q. So if you write the figure 22 in it will be correct?

A. If I write the figure 22 opposite the word "acetone" that will be correct. That is the second column of figures.

Mr. Dike: The comparative schedule is offered in evidence.

Mr. Miller: I object to it as being purely cumulative. The interrogatory and the Griffiths patent speak for themselves.

The Court: Getting them together will save time, probably. The objection is overruled. Admitted.

(It is reproduced in the Book of Exhibits, page 5 and is marked Plaintiff's Exhibit 48.)

Cross Examination

By Mr. Miller:

Q. Dr. Esselen, when did you make this analysis of Duratite Wood Dough?

(Testimony of Gustavus J. Esselen—cross.)

A. I made an analysis of Duratite Wood Dough last summer. I think it was in August.

Q. Out of a can of Wood Dough that was purchased by somebody?

A. Yes. I have the can here from which the sample was taken, the empty can.

Q. And how much ethyl alcohol did you find in that?

A. I did not ascertain the amount quantitatively.

Q. How did you determine that there was any in there?

A. How did I determine there was any in there?

Q. Yes.

A. We separated out the solvents and made a fractional [117] distillation.

Q. And that is your method of testing for ethyl alcohol, that you reported?

A. That is right.

Q. And how about the wood alcohol?

A. The wood alcohol was examined similarly. The amount of that also was separated out by fractional distillation.

Q. And that was the sole test that you made for wood alcohol?

A. Except, we made, as a result, a saponification test on it. The analysis, as I say, was carried out some months ago and I have forgotten the details of the test that was made on it.

Q. Did you find any other solvent in the Wood Dough besides acetone and wood alcohol?

(Testimony of Gustavus J. Esselen—cross.)

The Court: You haven't the details of every test or any details of the test?

A. I have forgotten the details of the various intermediate steps that were performed, was the answer to Mr. Miller's question. I was primarily interested to find whether or not there was acetone present. That was positively identified and there may have been other solvents present besides those that I have mentioned.

Q. Well, didn't you test to find out whether there were some other solvents besides acetone wood alcohol and the ethyl alcohol?

A. I did not.

Q. Did you find any substantial percentage in your fractional distillation of wood alcohol and ethyl alcohol present?

A. Not of wood alcohol and the amount of denatured alcohol was as I say. I made no quantitative examination. [118] It was not—it was an appreciable amount and that is about all I can say.

Q. What do you mean by an appreciable amount?

A. Well, as I say, I haven't the quantitative figures. I can't give them to you.

Q. Well, did you find more than a trace?

A. Yes.

Q. Would you say that you found as much as 5%?

A. I am not prepared to say.

(Testimony of Gustavus J. Esselen—cross.)

Q. I notice in the record of this case that there was an interrogatory proposed of the intervener here asking whether or not their Wood Dough contained these ingredients and in these percentages. Do you know whether that question was framed from an analysis that you made of Wood Dough?

A. I do not.

Q. Now, you state that you have read this Griffiths patent. Do you have a copy of that patent before you?

A. Yes.

Q. I wish to call your attention to line 4, page 1, where he speaks of using this material for coating. Do you know how that is done?

A. I have seen pieces of material in which there were dents, and these dents have been coated with Plastic Wood to fill up the dents.

Q. Is that done by adding additional solvent so as to make this composition of Mr. Griffiths' rather fluid?

A. When I have carried out such operations myself I have taken the Plastic Wood as it normally comes and placed a little portion, one-eighth of an inch in the bottom of the dent, depending on how deep the dent was. If it was deeper than one-eighth or three-sixteenths, I let that dry and put on a second layer, building it up the full depth of the dent. [119] I have used the Plastic Wood just as it came from the can, similar to the can that I have in evidence here.

(Testimony of Gustavus J. Esselen—cross.)

Q. You have never taken a solvent and applied to the Plastic Wood, though, in making coatings?

A. I never have.

Q. Have you ever seen it done?

A. I have never seen it done.

Q. With regard to this molding that he mentions in line 5, how is that done?

A. Well, all the molding which I ever did I have done with my fingers.

Q. Have you ever seen it placed in a metal mold of some predetermined shape, molded and allowed to dry after it has been shaped by that metal mold?

A. Yes, where the metal mold was filled with the fingers, I have done that myself. I have filled the metal mold with my fingers and allowed it to dry and removed it from the mold.

Q. And that made some sort of an object like a statuette, did it?

A. No, I have made just flat—primarily flat test pieces which I have made with it.

Q. Now I notice here beginning about line 76 Mr. Griffiths states that in place of celluloid three other forms of nitro-cellulose may be used. What other forms are suitable?

A. You can use moving picture film scrap or you can use 11% nitro-cellulose or you can probably use—when I say 11% nitro-cellulose I mean cellulose which contains 11% of nitrogen and is commonly used in the manufacture of celluloid. You can also use, probably less advantageously, the various

(Testimony of Gustavus J. Esselen—cross.)

nitro-celluloses that are ordinarily used in making lacquers. [120]

Q. Did you use pyroxyline?

A. Yes, you can use the material that is ordinarily called pyroxyline. That term usually applies to the nitro-cellulose that contains 11% nitrogen to which I have already referred.

Q. And how about collodion wool?

A. That of course all depends on what you mean by "collodion wool". Sometimes the term "collodion wool" is applied to the explosive grade of nitro-cellulose and you can't use that—that is, it would be unadvisable to use it.

Q. Can you use collodion?

A. When you use the term "collodion", Mr. Miller, it is a very indefinite term. There are some forms of collodion that could be used.

Q. And how about xyloidine, I believe it is generally called?

A. I am not familiar with that material.

Q. Never heard of it?

A. No.

Q. Gun-cotton is also a nitro-cellulose, is it not?

A. It is.

Q. Do you find any disclosure in the Griffiths patent that gun-cotton is unsuitable?

A. Is unsuitable?

Q. Yes, in his composition.

A. A negative statement? Well, I don't remember any reference to gun-cotton here. There may be one.

(Testimony of Gustavus J. Esselen—cross.)

Q. Then all he says is that other forms of nitro-cellulose may be used, in line 88, he doesn't tell you not to use any unsuitable nitro-cellulose such as gun-cotton, isn't that true?

A. Yes, because he would naturally expect anyone [121] would know not to use an explosive in a material of that sort. So far as the physical properties are concerned, of course it could be used.

Q. I believe you testified here in your direct examination that you knew of three nitro-celluloses, one of which was gun-cotton. What are the other two?

A. The other two, one of the other two is the so-called 12% nitro-cellulose, the percentage referring to the percentage of combined nitrogen. That is the variety that is ordinarily used in the manufacture of lacquer. The third variety is the variety which contains approximately 11% of combined nitrogen; and that is the variety that is ordinarily used in the manufacture of celluloid.

Q. These are the only three that you know of? Is that correct?

A. When one is speaking of nitro-cellulose, it is impossible to draw a sharp line. There is a gradual graduation from one to the other. These three general classifications are the three general classifications which are known in the trade: The explosive variety, the lacquer variety and the plastic variety. Now, the exact percentage of nitrogen in each of these varies within certain recognized limits.

(Testimony of Gustavus J. Esselen—cross.)

Q. Did you ever read any literature pertaining to the manufacture of nitro-cellulose?

A. Yes.

Q. By the way, how is nitro-cellulose made, ordinarily?

A. Ordinarily, nitro-cellulose is made by taking a purified cellulose, sometimes purified cotton linters and sometimes purified wood pulp, drying it and treating with a mixture of nitric and sulphuric acid under carefully controlled conditions of temperature and time. The acid is then thoroughly [122] washed out and the water removed, usually by means of alcohol, and then the nitro-cellulose is ready for use, whatever the use may be.

Q. Have you ever read, by any chance, Bockmann on "Celluloid"?

A. I don't think I have.

Q. I call your attention here to page 11 of Bockmann on "Celluloid", in which he states that:

"The actual nitro-compound formed depends on the strength of the nitric acid, the length of the reaction and the temperature of the acid mixture, as well as on the nature of the cellulose material used. The nitro-group may combine two, three, four, five or six times with the cellulose, and furnish the following compounds:

Dinitro-cellulose, containing 2 nitro groups;

Trinitro-cellulose, containing 3 nitro groups;

Tetranitro-cellulose, containing 4 nitro groups;

Pentanitro-cellulose, containing 5 nitro groups;

(Testimony of Gustavus J. Esselen—cross.)

Hexanitro-cellulose, containing 6 nitro groups.”

Do you agree with that statement?

A. May I ask the date of the publication of that book?

Q. I want to know whether you agree with that statement or not.

A. That statement is a statement which was made, I think, in the latter part of the last century or the early part of the present century, and describes a classification which was in use at that time for the classification of nitro-cellulose. There are other classifications which can be found which are equally representative, and that is not the classification which is used at the present time. It is a classification which has been in technical use in the past.

Q. Well, these five different nitro-celluloses that [123] are listed in that book do form, do they not?

A. They do, and they are included in the groups I have previously given; but I gave the present-day classification.

Q. Which of these five nitro-celluloses are suitable for use in this Griffiths specification?

A. I can't tell you because I am not in the habit of using that classification.

Q. Are you unfamiliar with those five nitro-celluloses by their chemical formula?

A. As I say, I am not in the habit of using that classification. I could probably sit down and figure it out, but that is not the present-day classification.

Q. Do you find any disclosure in the Griffiths

(Testimony of Gustavus J. Esselen—cross.)

patent either using that classification or the present-day classification, telling you what kind of nitro-cellulose to use and what not to use?

A. Obviously he is referring to those kinds which are commercially available.

Q. I am not asking you what is "obviously". I am asking you what is disclosed in that.

A. He discloses in his patent to use the varieties which are commercially available. The things which are laboratory curiosities he is not referring to here.

Q. You do not consider gun-cotton a laboratory curiosity, do you?

A. No.

Q. How about penta-nitro-cellulose?

A. To accommodate you I am trying to do some mental arithmetic rather fast. I think penta to which you refer is probably in the explosive range but I cannot be sure.

Q. Now, you have here some nitro-cellulose. Do you know what kind of nitro-cellulose that is in Exhibit 27? [124]

A. Yes.

Q. What kind?

A. That is the plastic variety.

Q. You don't know whether that is the trinitro-cellulose or the dinitro-cellulose?

A. I know it is not the trinitro-cellulose because that is almost never made; but it contains about 11% of combined nitrogen. By that I could figure out

(Testimony of Gustavus J. Esselen—cross.)

which one of your classifications it belongs to, if it is important.

Q. How does the material, Exhibit 27, compare with pyroxyline?

A. It is essentially the same thing.

Q. And how does it compare with collodion?

A. Usually collodion refers to a solution of nitro-cellulose in a solvent, usually alcohol and ether.

Q. A solvent of alcohol and ether?

A. An ethyl alcohol and ether.

Q. Now Mr. Griffiths here in line 82, page 1 of his patent states that ester gum can be replaced by other resins. What other resins can be used in place of ester gum?

A. Personally I haven't used any others.

Q. Do you know of any others that can be used?

A. I presume one could use elemi gum or maybe one could use mastic or gum thus. As I say, I have never used, myself, any other than ester.

Q. How about sandarsal?

A. I don't know.

Q. How about gum amber?

A. It would be very difficult to use gum amber, and expensive. It possibly could be used.

Q. How about ordinary rosin?

A. I don't know. [125]

Q. Then, it is stated here in line 90 at the bottom of page 1 and in the first few lines of page 2 that "Other solvents may be used in place of ketones,

(Testimony of Gustavus J. Esselen—cross.)

but the latter are preferable." Do you know what other ketones can be used?

A. Well, one that occurs to me is ethylacetate.

Q. How about a mixture of alcohol and ether?

A. Yes, that could be used.

Q. How about acetic ether?

A. Acetic ether is ethyl-acetate, the one I just referred to.

Q. I notice that Mr. Griffiths gives the composition here on page 2, lines 12 to about 20, in which he makes up a plastic wood or a plastic composition including a mineral filler. How is the bulk of that China clay compared with the wood flour in that suggested formula?

A. I don't know.

Q. How does the bulk of China clay compare with the gypsum shown here in exhibit 45?

A. I don't know. I have never tried it.

Q. In that suggested composition of Mr. Griffiths' where he includes a mineral filler he has more wood flour than he has China clay. Do you find that was true of the wood dough when the gypsum was included?

A. You mean by weight?

Q. Yes.

A. Yes, the formula weight that was given in the bill of particulars shows the wood flour had 11% and a fraction by weight and the gypsum was thirty-one and a fraction by weight.

(Testimony of Gustavus J. Esselen—cross.)

Q. Then the gypsum material outweighed the wood flour in the wood dough?

A. It did. [126]

Q. And that was not true in this suggested composition of Griffiths'?

A. No, they were nearly alike there; a little less China clay than wood flour.

Q. Now, do you have here sufficient ingredients to make up a sample in the courtroom of Griffiths' preferred formula as disclosed in lines 14 to 22 on page 1?

A. I have no idea, I did not come prepared to do that.

Q. You have samples of all of these ingredients here?

A. I have samples of all the ingredients. It would be rather a difficult job to make up a sample of the celluloid solution in the courtroom.

Q. And why is that so difficult?

A. Because it takes a very long time and a very active stirring to get the celluloid to dissolve.

Mr. Miller: If your Honor please, I propose to have Mr. Esselen make up a sample of Plastic Wood according to this formula from these ingredients in the court room and at the same time, in order to save time, Mr. Webb make up a sample of the plastic composition as disclosed in the Pierson patent. It will take some time to dissolve the nitro-cellulose and we are prepared here with scales, containers, and I think all the necessary ingredients to make

(Testimony of Gustavus J. Esselen—cross.)

these two up so that the nitro-cellulose can dissolve in the solvent during the day and towards evening we can incorporate the wood flour in it, making up the respective compositions and make some comparative tests.

Mr. Dike: I suggest if the defendant desires to make experiments of that kind they proceed to do so by their own witness. Then they will have no question as to what is [127] being done. The exhibits I have here I would like to retain for the purpose of the Court of Appeals. I do not think there is enough to make up any substantial sample. If they want to produce their own material, all right.

Mr. Miller: We have our own material for the Pierson composition.

Mr. Dike: I assume you will do what you see fit with your own witnesses.

Mr. Miller: I *would to* have Mr. Esselen make up the Griffiths composition in accordance with the Griffiths patent from these ingredients he has supplied here.

The Court: Well, there seems to be an objection.

Mr. Miller: I do feel this way about it: That the Court should be informed fully as to how these compositions are made up, see them made up so there will be no criticism of experts' experiments, and see how they work out here in the court room. It is true that we have examples of experiments already conducted, we have the samples here in the court room that we will offer in evidence; but on account of

(Testimony of Gustavus J. Esselen—cross.)

some of the Court's decisions they pay very little attention to ex-parte experiments and I would like to have them done right in the court room so that the Court can see it done.

The Court: I do not understand the plaintiff's attorney to accept your offer. The Court will not, in the absence of a stipulation, direct the experiment to be made in court. After your offer, anybody here objecting to your ex-parte experiments on the ground that they were ex-parte, the Court would not reach out to embrace.

Mr. Miller: Well, possibly I would better make an offer in the nature of an offer to prove, and I offer to prove at this time to have Mr. Esselen make up the compositions from these ingredients and at the same time, under identical [128] conditions Mr. Webb, whom I would like to have sworn as a witness, make up a sample of the Pierson composition for the purpose of absolute comparison under identical conditions. I would like to have the Court instruct the witness then to make up the plastic composition in accordance with the Griffiths patent.

The Court: Any objection?

Mr. Dike: Yes, your Honor, I think any experiments that the defendant desires to conduct should be conducted by his own witnesses.

The Court: Objection sustained.

Mr. Miller: May we have an exception?

The Court: Allowed.

(Testimony of Gustavus J. Esselen—cross.)

Mr. Miller: Q. Now, did you make a quantitative analysis of wood dough as to how much castor oil was in it?

A. No. I made a qualitative analysis of wood dough in order to identify castor oil.

Q. And how did you make that analysis?

A. Separated out the castor oil, found that it was an oily substance soluble in alcohol. Most oils are not. And we applied the Elaidian test to it.

Q. And you were able to determine from that that it was castor oil and not cottonseed oil?

A. It behaved similar to castor oil because cottonseed oil is not soluble in alcohol.

Q. And what kind of gum did you find in Wood Dough?

A. I made no analysis for gum.

Q. You do not know whether there is any gum in there or not?

A. No, except from your statement in the answers to the interrogatories.

Q. Now, did you determine from your analysis that [129] any of the Wood Dough contained nitrocellulose filler in more than fifteen parts by weight?

A. It contains cellulose filler, do you mean?

Q. Yes.

A. I am trying to think whether I examined the cellulose filler quantitatively. I haven't my figures with me. I can't answer that question.

Q. You do not know whether the wood filler present was more or less than fifteen parts by weight?

(Testimony of Gustavus J. Esselen—cross.)

A. I can't give you that information.

Q. Now here on page 2 of the Griffiths patent Mr. Griffiths states that a filler, any suitable filling material may be used. What other fillers are suitable besides ground wood flour?

A. I presume one could use sugar cane pith, for example.

Q. How about sawdust, fine sawdust?

A. When sawdust gets down to the consistency of wood flour, yes.

Q. How about straw?

A. Straw I would not consider to be suitable.

Q. How about vegetable powder?

A. I beg your pardon.

Q. Any vegetable powder.

A. I referred to one, such as sugar cane pith, possibly. If you had a finely-divided vegetable powder you would have a substance that was similar to wood flour and could be used.

Q. How about a vegetable fibre?

A. How about what?

Q. A vegetable fibre.

A. A material with an appreciable fibre length I would not consider to be suitable. [130]

Q. How about starch?

A. Mechanically, I presume starch could be used. Because of its solubility in water it would be undesirable to use it.

Q. And how about arrow root?

A. I am not familiar with that.

(Testimony of Gustavus J. Esselen—cross.)

Q. How about ground or pulverized bleached cotton?

A. It might be possible to use that if it were very finely pulverized, and I should not think it would be so desirable as wood flour.

Q. How about cotton flock?

A. That would depend on the cotton flock. Some cotton flock you could use and some you couldn't.

Q. How about cotton linters?

A. Cotton linters would, if used as a filler, make a material which would not smooth out readily. Of course so far as the bulk of filler, it could be used to make a plastic wood. I do not think it would be practicable.

Q. How about corn stalks?

A. Corn stalks particularly the pith, could be used; unless the material were very finely ground it would not be feasible.

Q. Did you ever encounter a composition of that character in which cornstalks were used as a filling material?

A. I have heard of such a material.

Q. And how did that work out? Did it appear to be satisfactory?

A. Well, it was some years since I have seen that product and I really do not recall it.

Q. How about cork powder or pulverized cork?

[131]

A. Well, if you wanted a material which would dry down to the substance of a piece of wood you couldn't use quartz.

(Testimony of Gustavus J. Esselen—cross.)

Q. I am talking about cork.

A. I beg your pardon. I misunderstood you. There, again, it is rather a matter of the degree of the fineness of the grinding. If you get cork flour it ought to work.

Q. When these substances like sawdust and cork are not so very fine, what is the difference in the result of the composition?

A. If the sawdust is too coarse you cannot fill up fine cracks with it.

Q. That is the only difference?

A. And the material, of course, is not so finely grained as the wood flour.

Q. Those are the only differences?

A. Well, there is also a difference in the strength of the resulting product.

Q. Any other difference?

A. Not that I recall at the moment.

Q. What difference is there in the strength?

A. Well, where sawdust is used, unless some adjustment of the proportion of binder, etc., is made, the product is not so dense and inclined to be not so strong.

Q. How about pulverized bark?

A. If finely pulverized, like wood flour, it could be used.

Q. Be quite suitable?

A. Yes.

Q. And paper pulp?

(Testimony of Gustavus J. Esselen—cross.)

A. It would be difficult to make a practical material with paper pulp. [132]

Q. All of these materials are cellulose filler, are they not?

A. For certain purposes.

Q. But they are all cellulose filler?

A. Yes, they are all cellulose filler.

Q. What is the effect, in the Griffiths composition, of adding more filler such as China clay, talc powder, silica and the like as shown in lines 5 to 7 on page 2?

A. Depending, of course, upon the proportion which is added. It has a tendency to make a material which has a somewhat higher specific gravity.

Q. Suppose we add powdered silicate to the composition, as they suggested, that will give the composition a more or less somewhat of a stoney appearance when it dries, isn't that true?

A. It would depend entirely upon the relative proportions.

Q. Well, Mr. Griffiths states what proportions you should use or add?

A. No, he gives rather wide leeway there.

Q. In fact any portion of powdered silicate and wood flour would be bad, as far as he is concerned? Isn't that true?

A. He gives certain preferred proportions which he prefers. He also says that other proportions may be used.

Q. With relation to the powdered silicate?

(Testimony of Gustavus J. Esselen—cross.)

A. He says that may be added, other cellulose material, powdered silicate or the like.

Q. Suppose you have China clay, would that produce a material that was somewhat stony in appearance?

A. I have never tried China clay.

Q. Have you ever tried talc? [133]

A. No.

Q. Have you ever tried powdered silicate?

A. Yes.

Q. Did you get from that a composition which, when it dried, had the appearance of stone?

A. No.

Q. Never did?

A. No.

Q. How much powdered silicate did you add?

A. I don't remember, but it was less than one-half the amount of the wood flour. I remember that.

Q. Less than half of the wood flour?

A. It was a relatively small amount, compared with the wood flour.

Q. Now I believe you testified that there were three essential ingredients in the Griffiths disclosure, nitro-cellulose, solvent and cellulose filler.

A. I think I said a volatile solvent and cellulose filler.

Q. And a mixture of ether and alcohol of course is volatile, isn't it?

A. Yes.

(Testimony of Gustavus J. Esselen—cross.)

Q. Now does Mr. Griffiths state anywhere in his disclosure that the castor oil and ester gum can be omitted?

A. I don't recall that, Mr. Miller.

Q. You believe that a man familiar with these ingredients, that it would be fair to him to leave out those two? That is leave out castor oil and ester gum?

A. I don't know how to answer that question, Mr. Miller, whether it would occur to anyone to do it or not.

Q. Do you believe that it would be obvious to anyone familiar with these materials as you find in the Griffiths [134] patent that, using only such amounts of gum and such as naturally occur in wood flour would tend to give a product slightly less tough and less adhesive than one in which these components are reenforced with a gum and oil?

A. Yes, I believe that.

Q. You believe that a composition with the castor oil and the gum omitted would be one in which all essential properties would be fundamentally the same as a composition in which they were included?

A. The essential properties would be essentially the same. I have seen such samples made in that way.

Q. What do you mean by the "essential properties"?

A. I mean that the material would be of the same consistency of putty or dough and when it

(Testimony of Gustavus J. Esselen—cross.)

dried down it would dry down to a substance having the characteristics of wood.

Q. Do you believe that it would be obvious to anyone that was familiar with nitro-cellulose plastic compositions that if you wished to increase the flexibility and resilliency of the dried mass and to increase the adhesiveness that all they would have to do would be to add some castor oil and ester gum?

A. Yes.

Q. You believe that was true as of 1918?

A. Yes.

Q. In fact, during 1915, 1916 and 1917 castor oil was a well-known ingredient to use in nitro-cellulose plastic compositions to ameliorate the brittleness of the composition, wasn't it?

A. Yes.

Q. And gum, including ester gum, was also a well-known ingredient in nitro-cellulose compositions as a means of increasing the cohesiveness and the adhesiveness of the mass, as of those years. Isn't that true? [135]

A. Well, adhesiveness, yes. The cohesiveness I do not know.

Q. Do you know whether acetone was a well-recognized solvent in place of ether and alcohol, as of those years?

A. As to those years, yes it was.

Q. Now, if you have a compound containing nitro-cellulose, alcohol and ether and finely-divided sawdust or finely-divided vegetable powder you will

(Testimony of Gustavus J. Esselen—cross.)

necessarily have present in that composition some vegetable oil and some resin, isn't that correct?

A. What was the filler you included, Mr. Miller?

Q. Finely-divided sawdust or vegetable powder.

A. If you use dry vegetable powder you do not necessarily. Sawdust, of course, usually contains natural oil and the gum.

Q. Now are there any limits as to the quantities of the ingredients necessary to make a putty or a dough?

A. You mean by "ingredients" the ones mentioned here in the Griffiths patent?

Q. Yes.

A. Yes, you have got to work within certain limits to get a dough.

Q. What are those limits with respect to the wood flour?

A. That I do not know because I have never experimented to see what the limits are. I know that if you follow the directions of the Griffiths patent you will obtain a material which has a doughy, putty-like consistency.

Q. And the Griffiths patent suggests using wood flour not less than fifteen parts by weight, doesn't it, lines 59 and 60 on page 1?

A. He says, "The proportion of filler to the weight [136] of solution", referring to the wood flour filler, "I refer to lies between 15 and 30 parts of filler to 18 and 70 parts of solution." The lower amount given there is fifteen parts. On the other

(Testimony of Gustavus J. Esselen—cross.)

hand he goes on to say, "On the other hand, proportions outside of these limits may be employed."

Q. Have you ever made any comparative test between Duratite Wood Dough and Plastic Wood as placed on the market to determine the relative shrinkage of these two products?

A. Why, I think that example which I offered a while ago would probably be as good a comparison of that as anything. These were identical cracks in a piece of wood and they were filled with the materials under identical conditions and they would show any difference in shrinkage, I should suspect.

Q. Is that the only information you have on the subject as to whether Plastic Wood shrinks more when it dries or whether Duratite Wood shrinks more?

A. That is the only specific test that I recall at the moment, Mr. Miller.

Q. Have you ever made any comparative test to determine the relative fire hazard of the two products?

A. No.

Q. In a composition of this character is it advisable to have a composition which dries rapidly and catches on fire very readily, where it is used for patching wood?

A. Why, if it has the same relative inflammability as wood, I could see no objection to it.

Q. Have you ever made a test to determine whether this Plastic Wood dried and made up from

(Testimony of Gustavus J. Esselen—cross.)

Plastic Wood, as put out by the plaintiff in this action, is more or less inflammable than ordinary wood?

A. I don't remember any such test, Mr. Miller.

Q. Referring to plaintiff's Exhibit 37 I notice a [137] sort of a little crack running down along here, and there are several there in the end. Do you know whether those are shrinkage cracks or not?

A. No, I don't. They look to me as if they were imperfections in the filling of the little mold that was used to make these pieces.

Q. Did you see these pieces made?

A. I didn't see this particular piece made. It was made under my direction.

Q. But you didn't see it made at all?

A. I don't think I saw that particular piece made.

Q. What of this exhibit here, 37, 39, which is this piece, 38, which is this piece, 42, which is the one with a screw in it, and 40 with the three nails in it, and this wood turning, 41, did you see them made?

A. I saw this No. 41 in the process of being made. I saw No. 42 in the process of being made. I saw No. 39 and No. 38 in the process of being made. I don't remember about Exhibit 40.

Q. Did you see any of these that you have identified that you saw in the process of being made where the wood was in a plastic state?

A. The plastic materials from which it was made?

(Testimony of Gustavus J. Esselen—cross.)

Q. Yes.

A. Yes, I saw that being applied and left to dry out. I might explain that this particular piece, No. 39, was made in several layers. I did not see every individual layer that was placed, but I saw the first layer and the last one and I saw the others were applied in between and I supplied the material from which the layers were made.

Q. Will you explain to the court why that exhibit was built up in layers? [138]

A. Because if you tried to make it originally as thick as this piece is the surface here hardens before the center and it is a very difficult job to get the solvent out of the center of the mass.

Q. Have you made any comparative tests between Wood Dough and Plastic Wood as to whether molds can be made large and of considerable volume like that, with both products?

A. Yes, I have made samples of that sort and my experience has been that with Duratite Wood Dough there are more cracks to which you call my attention in Exhibit 37 than there are where the material is made out of Plastic Wood.

Q. How much experience have you had along that line observing these cracks?

A. Well, I have made a few samples which I have here. I have them with me and would be glad to show them if you care to see them, on which my statement is based.

Q. I would like to see them. (The witness produces samples.)

(Testimony of Gustavus J. Esselen—cross.)

Q. Did you make these up yourself?

A. I did not.

Q. Did you see them being made?

A. Yes.

Q. How thick was that Wood Dough when you saw this being made? Was it putty-like?

A. The Wood Dough was of essentially the same consistency as the sample in the can that has been offered in evidence here. In fact, it was taken from a similar can.

Q. And that had wood alcohol and ethyl alcohol in it?

A. I didn't analyze that particular sample.

Q. Do you know anything about the history of that can?

A. Yes.

Q. Where did it come from? [139]

A. I have the cans with me. They are marked. They came from a store I think in Long Beach, California. These are the cans and I have the sales slips that came with them.

Q. Now will you explain to the Court how these two wood turnings that you have prepared here, how these were packed up and forced into the mold or shaped in that manner?

A. They were packed in a small cylinder with the thumb and forefinger pressing it down, exactly as that example, Exhibit 41.

(The two wood turnings referred to by the witness were then marked for identification as Plaintiff's Exhibits 49 and 50.)

(Testimony of Gustavus J. Esselen—cross.)

Mr. Miller: Q. Did you personally pack that down with your finger in the mold?

A. No.

Q. Do you know with what force that was packed in there?

A. No, but it was done by the same man who made the one made of Plastic Wood.

Q. You do not know of your own knowledge whether he packed that down in the mold carefully or not?

A. No, I do not.

Q. Was there any degree of heat applied to this composition from which 49 and 50 were made?

A. I think they were dried at a temperature of about 100° F.

Q. How fast did they dry out?

A. As I remember, it took perhaps from five days to a week.

Q. Why did you subject it to this 100° F. temperature?

A. I happened to have a warm place. It was about that temperature and I placed them there to speed up the drying. [140]

Q. No directions on the can about subjecting the compound to heat to dry it out, are there?

A. No, and there are no directions to say that it won't work on a hot summer's day, which is approximately the conditions that I used.

Q. Did you make more than one turning of Plastic Wood similar to exhibit 41?

(Testimony of Gustavus J. Esselen—cross.)

A. At the time that was made, I did not.

Q. Have you ever made any other wood turning similar to that?

A. Yes, I have made a lot of them.

Q. Did you find any cracks in them?

A. Occasionally but not very often.

Q. Did you find any as bad as this you can see here in this Exhibit 50?

A. I have occasionally seen them as bad as Exhibit 50 but not very often.

Q. Did you make more than one wood turning from Wood Dough, besides these two?

A. Just these two. These are the only ones I made.

Q. Did you have any more turnings made up for you, under your supervision?

A. I did not.

Q. Now, is that nitro-cellulose that you have referred to as being suitable and which contains about 11%—do I understand nitro-cellulose?

A. Yes.

Q. Is that the same kind of nitro-cellulose that was used in wing dope for airplanes, for wings, during the war?

A. I don't remember just the nitro-cellulose content that was used in wing dope. I think that would have been suitable to use; that would have been a suitable grade to use. [141]

Q. These wing dopes contained this nitro-cellulose that had a lower nitration than gun-cotton?

A. Yes.

(Testimony of Gustavus J. Esselen—redirect.)

Redirect Examination

By Mr. Dike:

Q. You have referred repeatedly or there has been repeated reference made in the questions to nitro-cellulose and cellulose filler, both of which I think are referred to in the Griffiths patent. To make absolutely certain that there is no misunderstanding, will you distinguish between the two?

A. The term "cellulose" is the term which refers to a rather complex chemical substance. The purest form of cellulose which occurs in nature is cotton. Cellulose also forms the structural framework of all the vegetable kingdom.

The Court: You are repeating the statement made yesterday or the other day.

A. Cellulose, speaking chemically, is the raw material from which nitro-cellulose is made. Nitro-cellulose is the chemical solvent of cellulose. The cellulose filler refers to a relatively impure form of cellulose, of which wood flour is a typical example, which contains cellulose along with a lot of other things, such as natural oils and gums and lignin.

Q. What is the best cellulose filler, in your opinion, for use in these plastic composition which are under consideration in this case?

A. Wood flour.

(Testimony of Gustavus J. Esselen—recross.)

Recross Examination

By Mr. Miller:

Q. Just how do you designate wood flour, which you say is best? What are the characteristics of wood flour to distinguish it from sawdust, vegetable powders, ground cotton [142] and things of that character?

A. The degree of subdivision and the absence of fibres of appreciable lengths.

Q. Then, the wood flour is nothing more than very fine sawdust? Isn't that true?

A. It is wood which has been ground finer than sawdust.

Q. Just fine sawdust, isn't it?

A. No, because sawdust, strictly speaking, is the dust that comes from a saw, and wood flour is made particularly. It is ground in mills.

Q. Suppose you have a fine-tooth saw that produces a mixture of large wood particles and fine wood particles, and you have a mixture there of wood flour and the large splinters of wood? Isn't that true?

A. Well, it may be, Mr. Miller, but I never happened to see any sawdust that was as fine as wood flour.

Q. But you believe it may be?

A. It may be.

The

DEPOSITION OF LESLIE SOULE

taken on behalf of the plaintiff, together with the exhibits attached thereto, was offered in evidence as follows:

Direct Examination

My name is Leslie Soule and my age is 46. My residence is Dedham, Massachusetts, and my occupation manufacturer. I am Vice President and Works Manager of the Mason-Neilan Regulator Company at Boston. I was employed by The A. S. Boyle Company from August 1930 to August 1931, as Assistant Manager in their Plastic Wood Department. Prior to that time I was with the Addison-Leslie Company of Canton, Mass. I was treasurer and a large stockholder. The business of that company was [143] manufacturing Plastic Wood. I am familiar with the application for Griffiths patent No. 1,838,618, dated December 19, 1931, shown me, but I had not seen the patent itself until today.

(The patent shown to witness was then offered in evidence as Plaintiff's Exhibit 1, a copy of which is reproduced in the Bk. of Exhibits.)

The Addison-Leslie Company was formed specifically to manufacture and sell Plastic Wood as described by Exhibit 1. It was organized in May 1925. Prior to that I was interested in a local selling company which had handled the sale of Plastic Wood in New England. I believe it took on the sale of Plastic Wood in December 1924 or January 1925, for New England. I first heard of Plastic Wood

(Deposition of Leslie Soule—direct.)

through a friend of mine in New York who was an officer of C. Tennant & Son and Harrison-White, Inc. I understand that C. Tennant & Son Company or Harrison-White, Inc. had brought information concerning this material from England. My knowledge of this material was some time in the Fall of 1924. I first secured the right to sell this material in New England. Later, in May 1925, I formed the Addison-Leslie Company and secured a license to manufacture this material for the United States. Before the formation of the Addison-Leslie Company this material was manufactured by the Frankel Chemical Company at Jersey City, New Jersey.

I did not obtain any of the material from England. The Addison-Leslie Company began to manufacture the material for itself in December 1925. It marketed its product under the name "Plastic Wood." Here is a sample of the Plastic Wood packed in a tube. (The sample was then offered in evidence as Plaintiff's Exhibit 2, forwarded as a physical exhibit.)

The can which I have here is similar in all respects to packages made by the Addison-Leslie Company, but was made after The A. S. Boyle Company had taken over the Addison- [144] Leslie Company. (The can produced by the witness was offered in evidence as Plaintiff's Exhibit 3. It is forwarded as a physical exhibit.)

(Deposition of Leslie Soule—direct.)

The formula employed by the Addison-Leslie Company in the manufacture of its material sold under the name of "Plastic Wood" is celluloid scrap, 13 parts by weight; methyl acetone, 23 parts by weight; toluol, 23 parts by weight; denatured alcohol, 7.7 parts by weight; castor oil, 3.3 parts by weight ester gum, 6.5 parts by weight; wood flour, 23 parts by weight. The celluloid scrap was dissolved in the mixture of acetone, alcohol and toluol. Then, ester gum and castor oil were added before the celluloid scrap was dissolved. When the mixture was thoroughly dissolved the required amount of wood flour was added gradually and the complete mass thoroughly mixed until it was homogeneous. The consistency was that of a thick paste. I should like to add to my previous answer. The consistency of Plastic Wood is heavier than paste, but it can be kneaded in the hand. On exposure to air, Plastic Wood hardens to the consistency of soft wood-like pine.

The effect of castor oil on the final product is to make the product slightly elastic and resilient and increases its strength. The ester gum increases the adhesion of Plastic Wood to any base to which it may be applied. We have one or two small batches of the Griffiths composition, omitting the castor oil and the ester gum, using only the three ingredients, viz., the solvent, wood flour, and the nitro-cellulose or film scrap. Such material, in appearance, was identical with our regular material that contained

(Deposition of Leslie Soule—direct.)

ester gum and castor oil but it was more brittle and did not have as good adhesive qualities. It was, however, a practical and useful material. It was essentially the same as Plastic Wood and could be used, but it was not so satisfactory as the material containing the ester gum [145] and castor oil.

Plastic wood is generally used for repairing defects in finished wood, such as knot holes, dents, and cracks in all kinds of cabinet work. It has been used for repairing dents and replacing splinters which chip off furniture through bad handling. It is used extensively in the manufacture of wood patterns and also metal patterns by filling dents or making minor alterations in the contour of patterns and core boxes.

It is also used extensively by automobile body builders for filling in irregularities on the tops of bodies before the top is put on. In this respect, Plastic Wood is sometimes smeared over on the top of the frame to cover any irregularities and then the top itself is put on while the Plastic Wood is still soft. In this way, Plastic Wood makes a perfect joint between the frame and the top. It is also used to cover bolt heads and rivet heads.

In boat building, Plastic Wood has a variety of uses such as covering holes in place of the wood plugs which had previously been used where fasteners are countersunk. Among the most important uses of Plastic Wood are boat repairs such as replacing rotten stems and keel so that a new plank

(Deposition of Leslie Soule—direct.)

can be attached against the rebuilt surface and be water tight. It is also used for repairing chafed planking to the original surface contour. In the shoe industry, Plastic Wood is used for repairing shoe lasts and for remodeling last models.

Plastic wood has been used extensively for repairing all kinds of furniture, such as school desks which have been carved by pupils with jack knives. Perhaps, the most general use of Plastic Wood is in the home where it has a great variety of uses for repairing all kinds of home furniture, building boat models, etc.

It has been used for repairing stair treads which have [146] torn or split off at the end. For remodeling gun stocks and repairing bird decoys. It has also been used quite generally in automobile repair shops for repairing automobile bodies where the original woodwork has rotted away or has been damaged in accidents. It is also used to fill dents in damaged fenders and bodies. The Plastic Wood is applied to the metal and then sanded down to the original contour. In these cases repairs have been made and after the paint has been applied the repair is invisible.

Plastic Wood will adhere to a clean metal surface and when properly applied, can only be removed by chipping and filing. Plastic Wood in appearance, after hardening, is like real wood and as we manufacture it of about the hardness of white

(Deposition of Leslie Soule—direct.)

pine, but it has no grain structure. It will not split or crack under ordinary usage such as boring holes or driving nails or screws. In that respect it is superior to ordinary wood. It can be worked with all kinds of woodworking tools exactly like real wood and does not have a tendency to crack which real wood has. I have here a bar of Plastic Wood about two feet long about two inches in diameter which has been turned up in a woodworker's lathe.

(This was offered in evidence as Plaintiff's Exhibit 4 and is forwarded as a physical exhibit.)

I have a small sample of Plastic Wood about one and one-half inches in diameter by two and one-half inches long. This sample shows how Plastic Wood can be sawed, drilled, planed, and how it holds nails and screws. It also indicates by the insertion of a machine screw that it can be threaded and hold the thread with considerable strength. Our experience indicates that Plastic Wood holds nails and screws better than ordinary soft wood, and probably as well as hard wood. (The last sample referred to by the witness was offered [147] in evidence as Plaintiff's Exhibit 5. It is forwarded as a physical exhibit.)

I have here three samples of heavy sheet steel such as is used in automobile bodies. These pieces have been dented and the dents filled with Plastic Wood. One sample shows the Plastic Wood in a semi-finished state with the original priming coat of paint applied. The other sample shows the finished

(Deposition of Leslie Soule—direct.)

job after the application of lacquer and paint to the metal. These pieces also indicate the remarkable adhesion of Plastic Wood to metal. (The three samples were offered in evidence as Plaintiff's Exhibits 6, 7, and 8, and are forwarded as physical exhibits.)

I have here two lasts used in the manufacture of shoes. One of them shows how tacks penetrated the sole of the last, wearing it away. The other specimen shows a similar last which has been repaired with Plastic Wood. (The two lasts were offered in evidence as Plaintiff's Exhibits 9 and 10, and are forwarded as physical exhibits.)

Plastic Wood is used in the manufacture of last models for building up portions where the last maker has cut away too much of the wood. This use enables the last maker to save a last which would otherwise be useless. Plastic Wood is also used for re-shaping finished last models when it is desired to make slight changes in the shape. (The witness produced a last which was offered in evidence as Plaintiff's Exhibit 11, forwarded as a physical exhibit.)

This exhibit shows a section of a boat stem which had rotted away and the defective portion had been rebuilt with the original form by Plastic Wood. This was used by Addison-Leslie Company as a demonstration of the use of Plastic Wood in various exhibits, such as the Motor Boat Show in New York. (The exhibit was then offered in evidence as [148])

(Deposition of Leslie Soule—direct.)

Plaintiff's Exhibit 12, forwarded as a physical exhibit.)

This exhibit is another demonstration of the use of Plastic Wood for repairing chafed planking on a boat. To the best of my recollection, this exhibit was used in the New York Motor Boat Show in January 1929. (The exhibit last referred to was offered in evidence as Plaintiff's Exhibit 13, forwarded as a physical exhibit.)

This model represents a portion of the rim of a boat with a section of planking attached. It shows the use of Plastic Wood for covering the heads of countersunk nails. (The model was offered in evidence as Plaintiff's Exhibit 14, forwarded as a physical exhibit.)

At the time I put the Griffiths Plastic composition on the market, as far as I know there was no other material which would perform substantially the functions of the Griffiths composition. There was no other material which could be compared in any way with Plastic Wood to my knowledge. The nearest was ordinary lead putty and certain mineral fillers. They were the only things on the market, to my knowledge, and they cannot be compared with Plastic Wood.

The Griffiths composition has replaced putty and mineral crack fillers, and in furniture work has replaced stick shellac. The sales of Plastic Wood made by the Addison-Leslie Company annually are as follows:

(Deposition of Leslie Soule—direct.)

May 25, 1925 to	
December 31, 1925	\$ 12,759.00
1926	58,024.00
1927	140,449.00
1928	258,464.00
1929	378,965.00
1930	379,602.00

This last year includes four months after the Addison-Leslie [149] had been purchased by The A. S. Boyle Company. I was with the company until August 1931 and the comparative sales for 1931 dropped off materially as compared with 1930. I attribute a good deal of the drop of sales to the appearance of a great many products similar to Plastic Wood. The first competitive product, as well as I can recall, was known as Fillitt. I think this appeared sometime in the latter part of 1926. I have here a sample of Fillitt manufactured by Patent Devices, Inc., Chicago. This was manufactured by a man who tried to secure the right to the Griffiths application and who for a period acted as an agent of the Addison-Leslie Company in Chicago. (The can of Fillitt was introduced in evidence as Plaintiff's Exhibit 15 which is forwarded as a physical exhibit.)

Q. 58. Since that time what other substitutes have been on the market which have the same general nature?

Mr. Miller: I will object to the introduction of this can of Fillitt and also to quite a number of cans

(Deposition of Leslie Soule—direct.)

of competitive material that were introduced in the exhibit, as not being in issue in this case.

The Court: What is the purpose?

Mr. Dike: To support the patent, because of the public recognition due to the imitations.

The Court: Objection overruled.

Mr. Miller: Exception.

The Court: Exception allowed.

I should say fifteen or twenty products appear on the market. I have here exhibits of competitive materials. (The following exhibits were then introduced in evidence and are forwarded as physical exhibits.)

Peel-Lex Wonder Wood, Plaintiff's Exhibit 16, manufactured by Peel Manufacturing Company, Cambridge, Massachusetts. [150]

Magic Wood, Plaintiff's Exhibit 17, manufactured by Leham Bros., Jersey City.

Dandy Wood Putty, Plaintiff's Exhibit 18, manufactured by Dandee Manufacturing Co., Fremont, Ohio.

Arco Dum-Dum Plastic, Plaintiff's Exhibit 19, manufactured by the Arco Company of Cleveland, Ohio.

Cornstalk Plastic, Plaintiff's Exhibit 20, manufactured by Cornstalk Plastic Company, Ames, Iowa.

Wood Dough, Plaintiff's Exhibit 21, manufactured by the Harris-Thomas Company, Roxbury, Mass.

(Deposition of Leslie Soule—direct.)

Plastosa Pliable Wood Paste, Plaintiff's Exhibit 22, manufactured by G. J. Liebich Co., Chicago, Ill.

Three Star Wood Cement, Plaintiff's Exhibit 23, manufactured by the Wood Chemical Co., Boston, Mass.

Fixit Mending Wood, Plaintiff's Exhibit 24, manufactured by Lewis & Freman, Cleveland, Ohio.

Horne's Patch Wood, Plaintiff's Exhibit 25, manufactured by A. C. Horne Co., Brooklyn, New York.

There were others of which I am able to produce specimens including Handy Wood, manufactured by the Creo Dipt Company, Towawonda, New York; Wood Amalgum, Wood Amalgum Company, Bloomington, New Jersey; Patching Wood, Sheffield Bond Powder & Stencil Company, Cleveland, Ohio. There were several other products of the same nature but at this time I am unable to remember their name nor the manufacturer.

The Addison-Leslie Company advertised in some of the hardware trade papers and ran small advertisements in such magazines as Saturday Evening Post, Popular Mechanics, Good Housekeeping, and some of the other magazines. We also did some direct mail advertising to the retail hardware stores. I cannot recall the actual figures as to how much money was expended in advertising, but I believe in 1929, which was the [151] last year I was in control of the company our advertising expenditure was approximately \$40,000.00.

(Deposition of Leslie Soule—cross.)

Cross Examination

By Mr. Thomson:

I have no definite figures on the amount of Plastic Wood manufactured by Frankel Chemical Company, but it is my understanding that the manufacture was very limited and was done for Harrison-White Inc. of New York City, who had the rights under the Griffiths patent application for the United States. It was for Harrison-White Inc. that Addison-Leslie Company secured these rights. I believe that Harrison-White Inc. was engaged in the business of making or having Plastic Wood made six to eight months prior to January 1925. I am sure that Frankel Chemical Company did not advertise the product as they were merely manufacturing the product for Harrison-White. Harrison-White may have done a small amount of advertising to the pattern makers trade.

Harrison-White Inc. took over the rights of Plastic Wood with a view of selling them to a manufacturer as their business is, generally speaking, the promotion of new products. For this reason, they did not develop a substantial sale.

The formula I have previously given was consistently used by Addison-Leslie Company during its manufacture of Plastic Wood with the exception that originally benzol was used instead of toluol. The Addison-Leslie Company changed from benzol to toluol due to the hazard of benzol poisoning its employees. Benzol, aside from the hazard, is pref-

(Deposition of Leslie Soule—cross.)

erable to toluol because it is more volatile. As far as I know. Frankel Chemical Company used the same formula with the substitution of benzol for toluol because Frankel Company received the formula from Harrison-White Inc. [152]

During my connection with The A. S. Boyle Company the formula was not changed as far as I know. I do not know whether there has been any change in the Plastic Wood formula since August 1931. As far as I recollect no Plastic Wood was sold which varied substantially from the formula. I have previously given. Small batches manufactured without ester gum and castor oil were only experiments.

The testimony I have given as to the manufacture and sale of this composition and its uses and advantages relate to the preparation which was manufactured by Addison-Leslie Company. Plaintiff's Exhibits 4 to 14 probably date back to 1927 or 1928. Some of them were used for exhibits in the New York Motor Show and similar shows and some were prepared as salesmen's samples. I assume they have been in the possession of the A. S. Boyle Company since that time. The samples of boat construction were made for the Addison-Leslie Company and I assume that the others were made by the Addison-Leslie Company at Canton as they are identical with exhibits which we made up.

My statement of the reason for the drop in the sales of Plastic Wood by Addison-Leslie Company and by The A. S. Boyle Company is a matter of

(Deposition of Leslie Soule—cross.)

opinion based upon fact that we had a great deal of competition from competing products, most of which were sold at a price substantially lower than the price for a similar amount of Plastic Wood. Lead putty, minerals, crack fillers, and thick shellac are still used to a very considerable extent in the painting and furniture trade. I cannot say definitely but I should think that all of the competitive products I have mentioned came out prior to 1930.

The advertising of Addison-Leslie Company included display cards used in dealers' stores.

Addison-Leslie Company sold its rights under the [153] Griffiths application and to the preparation known as Plastic Wood to The Boyle Company in or about August 1930, when I became Assistant Manager of the Plastic Wood Division of that company.

Redirect Examination

By Mr. Dike:

The particular purpose of the advertising done by the Addison-Leslie Company was to acquaint potential users of Plastic Wood with what we considered to be an entirely new and revolutionary product. We had to find the field for marketing of the product and to acquaint the potential users with the fact that there was such a product. The price paid by The A. S. Boyle Company for the Addison-Leslie Company was \$720,000.00 market value in August 1930.

(Deposition of Leslie Soule—recross.)

Recross Examination

By Mr. Thomson:

The Addison-Leslie Company was manufacturing a product known as "Rug-Stay" for preventing rugs from slipping on hardwood floors. The volume of sales of this product was negligible. The Company also manufactured a product known as Canton Crack Filler which was a mineral crack filler. The sales of this product were also unimportant.

The A. S. Boyle Company continued the business of selling Rug-Stay or Canton Crack Filler I believe.

Attached to the deposition is a stipulation that payments of advertising were as follows:

May 25, 1925 to Dec. 31, 1925	\$ 1,533.45
The year 1926	9878.77
The year 1927	21,246.46
The year 1929	74,134.88
	[154]
The year 1930 until August	84,000.00
From Sept. to December	21,000.00
Total	\$95,000.00

WALTER SILBERSACK

called on behalf of the plaintiff testified as follows:

Direct Examination

By Mr. Dike:

My name is Walter Silbersack. I am President and General Manager of The A. S. Boyle Company. I am 34 years of age and reside at Cincinnati, Ohio. I have been connected with The A. S. Boyle Company, the plaintiff in this action since January 1, 1923. I worked originally as advertising manager, later as sales manager, and since 1927 I have been general manager and president.

The Boyle Company purchased the Griffiths patent from the Addison-Leslie Company of Canton, Massachusetts.

I heard the Soule deposition read and the statement that the price paid for it was \$720,000.00. That is correct.

Plaintiff's Exhibit 36 is a can of Plastic Wood and is one of a group of cans shipped out of our regular commercial stock that we carry for shipping to the trade. We sent this to Dr. Esselen. The formula of Plastic Wood as we make it now and as we have made it from the time we bought it is 382 parts of film solution, 19½ parts of castor oil, 35 parts of ester gum, and 118 to 130 parts of white pine wood flour.

In our contact with the hardware and paint trade we saw the product Plastic Wood spring up in the trade where it sold very rapidly with comparatively

(Testimony of Walter Silbersack—direct.)

a small amount of advertising and a small sale force. It made us feel that the product had a wide market so we asked the [155] Addison-Leslie Company whether they would sell it.

In my contact with the hardware trade I know of no other product which was sold for that same purpose by the trade. I contacted the hardware trade more or less regularly as sales manager from Maine to California.

In 1931 the sales approximated \$298,000; in 1932 they approximated \$209,000; in 1933 they approximated \$206,000; in 1934 they approximated \$278,000; in 1935 they approximated \$309,000. From September 1930 to December 1930 the figures for advertising were \$21,000.00; for 1931, they were \$69,000; for 1932 they were \$32,000; for the year 1933 they were \$36,000; for 1934 they were \$66,000; for 1935, from January up to the end of November they were \$67,000. The number of pieces or containers or units of Plastic Wood that have been sold are between two and two and one-half million.

Plastic Wood is sold in tubes and in cans. In tubes it is sold in a 10¢ size and 25¢ size. In cans, it is sold in quarter pound sizes, one pound sizes, five pound and twenty pound drum.

(The plaintiff then offered in evidence a certified copy of the Bill of Complaint in the case of Manfred E. Griffiths and the Addison-Leslie Company vs. Thomas E. Robertson, Commissioner of Patents No. 50,184.)

(Testimony of Walter Silbersack—direct.)

Mr. Miller: If you are going to make an offer of that character, the whole file history go in, leading up to that suit.

I still wish to make my objection that I made to the bill of complaint, answer and decree, which proceedings went in before that court that gave rise to the patent. It may be it will be introduced in support of the decree and how that happened to be granted.

The Court: Objection overruled. Admitted.

[156]

Mr. Miller: Exception.

The Court: Allowed.

(The bill of complaint was admitted as Plaintiff's Exhibit 51, and is reproduced in the Bk. of Exhibits.)

The plaintiff then offered a certified copy of the answer in this suit.

Mr. Miller: The same objection.

The Court: Overruled, admitted.

Mr. Miller: Exception.

(The answer was then admitted as Plaintiff's Exhibit 52 and is reproduced in the Bk of Exhibits.)

The plaintiff then offered a certified copy of the findings of fact and conclusions of law in that case.

Mr. Miller: The same objection.

The Court: Overruled. It will be admitted.

Mr. Miller: Exception.

(Testimony of Walter Silbersack—direct.)

(The certified copy of the findings of fact and conclusions of law were admitted as Plaintiff's Exhibit 53. They are reproduced in the Bk. of Exhibits, page 17.)

The plaintiff then offered a copy of the decree in that case.

Mr. Miller: The same objection.

The Court: Objection overruled. It may be admitted.

Mr. Miller: Exception.

(The copy of the decree was admitted as Plaintiff's Exhibit 54. It is reproduced in the Bk. of Exhibits, page 22.)

A certified copy of a decree in Cause No. 4182, U. S. District Court, Northern District of Ohio, The A. S. Boyle Co., plaintiff, vs. Sheffield-Bronze Powder & Stencil Co., defendant, was admitted as plaintiff's Exhibit 55. [157] (It is reproduced in the Bk. of Exhibits, page 43.)

A certified copy of a decree in Cause No. 2210, U. S. District Court, District of Connecticut, The A. S. Boyle Co., Plaintiff, vs. Yale Rose and Charles M. Rose, doing business as Yale's Hardware Store, Defendants, was admitted as Plaintiff's Exhibit 56. (It is reproduced in the Bk. of Exhibits, page 47.)

We notified all the companies manufacturing products that we thought were within the scope of the patent immediately when the patent was issued. Here is a partial list of some of those who have agreed to discontinue manufacturing:

(Testimony of Walter Silbersack—direct.)

Arco Synthetic Wood, made by Arco.

Handi Wood, made by Creo Dipt. Co. [158]

Dandee Wood Putty, made by Dandee Mfg. Co.

Flexwood, made by General Paint Co.

Patchwood, made by A. C. Horn Co.

Plastic Wood, made by Imperial Laboratories.

Patching Wood, made by Janney-Sample Hill
Co.

Limber Wood, made by Limber Products Co.

Dum Dum, made by Miami Rubber Co.

Workable Wood, made T. H. Nevins.

Renew Wood, made by Northern Hardware Co.

Wood Paste, made by Oakley Paint Manufac-
turing Co.

Patching Wood, made by Tieman Stove & Hard-
ware Co.

Tilette Canned Wood, made by Tilette Co.

Wood Plastic, made by Tinker Wood Works.

Tremco Plastic Lamber, made by Tremco Man-
ufacturing Co.

Patching Wood, made by Shapleight Hardware
Co.

Fixit Mending Wood, made by Wallace Paint
& Varnish Co.

Magic Wood, which was sold by Woolworth
Company.

We have granted a license to the Creodeek Com-
pany for the manufacture of Kneaded Wood. They
paid us a royalty and a back royalty on the products
they sold before they were granted a license.

(Testimony of Walter Silbersack—direct.)

Carpenters and painters are quite large users of Plastic Wood. Many carpenters carry it in their kits all the time. Carpenters find it particularly useful because practically all the tools they carry in their kits are tools for taking off wood. Plastic Wood is one of the few items they have for putting wood on—or the only item they have, I should say.

The A. S. Boyle Company put the patent number on all cans and tubes just as soon as the patent was granted. This appears on Plaintiff's Exhibit 36. When the patent was granted we ran a full page advertisement calling attention to the [159] patent in many of the leading hardware and paint trade journals.

Cross Examination

By Mr. Miller:

I was not connected with the Addison-Leslie Company prior to its being purchased by The Boyle Company.

The physical assets that the Addison-Leslie Company had was the building, a certain amount of machinery, a very limited amount of office equipment, and in addition to the patent they had a trademark and a certain amount of goodwill. They had two other products mentioned by Mr. Soule in his deposition which were very new and had practically no particular sale. Rug-Stay had just been started. We are still selling it but not in large quantities. We do practically no advertising on Rug-Stay but

(Testimony of Walter Silbersack—cross.)

we do a *tremendous* for our Old English Wax. The advertising of Rug-Stay is very small compared with the advertising of our Old English Wax. On my personal card of the company, Plastic Wood and Rug-Stay are advertised in the same size type and on the same line.

The advertising I have just referred to as having been run in the trade journals is of the character appearing on the back of the Hardware World for August 1933. I think this appeared in four or five or six or seven publications. I do not know what kind of an injunction was granted against the companies that I said had been enjoined in my direct examination. I know that an injunction was granted.

Q. Against who?

A. I know we were notified by our attorneys that an injunction was granted.

Q. That is all you know about it?

A. That is all I know about it.

As to the action against Sears Roebuck, my records do not show an injunction but show it was discontinued without [160] prejudice and after settlement they paid damages to us. I got that information from our attorneys. I presume I saw a decree in that case similar to this copy, I don't recall it.

(It was then stipulated that the copy of the decree in the Sears Roebuck case was a true and correct copy. It was offered in evidence and admitted as

(Testimony of Walter Silbersack—cross.)

Defendant's Exhibit 1. It is reproduced in the Bk. of Exhibits, page 49.)

My recollection is that Sears Roebuck paid us a sum based on the merchandise they had sold. This is to the best of my recollection. I could look it up and make sure but I am very sure that that is the way it was settled. I don't recall the exact amount they paid us. As to whether they paid us anything or not, my recollection is that they did. I think what they paid us was based on so much per piece or per can, but I am not sure about it.

The Western Auto Supply Company case was settled by agreement of counsel according to my records. The settlement was left with our attorneys. I know nothing about it except what our attorneys told me. I don't recall how much they paid. I think it was about \$700.00, but I am not positive of the exact amount.

As to the Sheffield case, my record doesn't show that that case was settled by agreement of counsel. It is marked "Injunction granted and consent decree."

I never attended a trial before in which this patent was involved and alleged to be infringed.

As to the Yale Hardware Company, my record shows that an injunction was granted. I know there was a court case. I know a trial was set. My understanding was that there was actually a trial but I wasn't there. I don't know how much the Sheffield

(Testimony of Walter Silbersack—cross.)

people paid us. I don't think the Yale Hardware people paid anything. [161]

We have quite a large number of salesmen out. It is the custom of our advertising department to supply the salesmen with samples of all advertising. I presume they secured a copy of the advertising that appeared on the back of the Hardware World. I recognize this as being a reprint of that advertisement. I presume the salesmen were supplied with it from the advertising department the same as they are proofs of all our advertising. I don't exactly know whether that particular reprint was sent out to the salesmen. I imagine they did have reprints just exactly like this.

(The reprint was offered and received in evidence as Defendant's Exhibit A-2, reproduced in Book of Exhibits, page 51.)

We do not have any school or any training to enable these salesmen to inform them as to what compositions are an infringement of the Griffiths patent and what are not.

I don't know whether any of our salesmen at any time since The Boyle Company owned this patent went into jobbers of competing products and left copies of this reprint with them. I do not know whether any of our salesmen threatened jobbers handling competing products with infringement suits. I have not made any investigation to determine the activities of our salesmen in that regard.

Defendant's Exhibit A-2 was prepared by our advertising agency. I approve of it.

(Testimony of Walter Silbersack—cross.)

I would have to look up the records in Cincinnati to inform the Court which three suits were brought in each of which the infringer was enjoined and ordered to pay damages as stated in that advertisement. I would have to look up the records to see which one we referred to at that time as being the fourth suit settled by the defendant acknowledging the validity of the patent and paying damages.

This little reprint shown to me looks like a reproduction [162] of the other taken out of one of our trade mailings. We have mailed these small reprints out to the hardware trade generally. The last one, I recall, was in this blue list here which went out to the trade this Spring. I believe that is where it is taken from. Is that it? I guess that is about the same. The entire book was mailed out and that reprint is taken from this book. We mailed out this large booklet to the various hardware and paint stores. I believe we restricted mailing of this book to our own customers. Normally, we do not. I don't recall any other booklet than this one which went out this Spring. About 50,000 of them were put out. I don't know how many of these reprints similar to Defendant's Exhibit A-2 were printed.

I can't say exactly what our salesmen do in calling on the trade except I know we do not ask them to warn competitors against using competing products or against infringing this patent. If it was done, it was done without our authority because the warn-

(Testimony of Walter Silbersack—cross.)

ings that we sent out we considered sufficient. I have not heard of it being done. I have not heard about certain jobbers quitting the use of competing products and taking on our product following a warning made by one of our salesmen. I have known them to take it off following advertisement which we ran. I approve of this statement appearing in the advertisement: "This announcement is a warning to the trade that the manufacture or sale of any wood base putty containing nitro-cellulose, solvent and wood filler or their equivalent is an infringement of this patent."

I don't know whether a warning letter was sent to the Pacific Marine Supply Company, the defendant in this action, because these letters were sent out by our attorneys. I haven't any list here of exactly who it went to. I would have to look up the carbons of letters sent out by the attorneys [163] to know whether a warning letter was sent to the intervener, Webb Products Co., Inc. I don't think I personally corresponded with Webb Products Inc. before this action was started. I don't recall any letters that I wrote. I haven't sent out any letters as a warning to competitors. These letters were sent over the name of our attorneys.

The letter shown to me dated July 17, 1933, I recall.

(The letter was offered and received in evidence as Defendant's Exhibit A-3, and is reproduced in the Bk. of Exhibits at page 53.)

(Testimony of Walter Silbersack—cross.)

Mr. Dike: I will ask counsel to produce the letter to which that was a reply.

Mr. Miller: I believe I have it. Yes, here it is.

Mr. Dike: We offer it.

The Court: **Admitted.**

(The letter to which Defendant's Exhibit A-3 is a reply was admitted in evidence and marked Defendant's Exhibit A-4. It is reproduced in the Bk. of Exhibits at page 54.) The film solution that I referred to in the formula of Plastic Wood is nitro-cellulose and solvent combined. The solvents are the same solvents which Dr. Esselen gave in his testimony. I think they are acetone, toluol, and alcohol. I don't know the exact proportion. I do not know the proportion of nitro-cellulose to the entire amount of solvent because in working, all that I work with is the formula that we use. We refer to it as film solution. I was aware that the Pacific Marine Supply Company was selling the product of the Webb Products Company at the time this suit was brought. I did not think the Pacific Marine Supply Company was manufacturing any competing composition to its own. I had nothing to lead me to believe that they were manufacturing one.

The largest amount of advertising on which I have [164] given figures is spent in running advertisements in such publications as the Saturday Evening Post, Collier's, Liberty, American Cookery.

(Testimony of Walter Silbersack—cross.)

The greatest proportion of the total sum is in that form of advertising. Sometimes the volume of sales we have made corresponds to the amount of advertising we have spent and sometimes it does not. In 1931 when we spent \$69,000 for advertising, we did \$298,000 worth of business. When we dropped down in 1932 to \$32,000 for advertising, our sales were off that year. In 1933, the sales stayed practically the same as the previous year, and in 1933 we only spent \$36,000 for advertising. When we started spending \$66,000 again our sales increased.

I have been given a list of concerns putting out competing products who have indicated to us that they were going to quit. I have not a list with me of concerns that are putting out competing products that are still putting out those products. I have such a list in the office. I would think offhand that there would be somewhere around a dozen or a dozen and a half of such concerns located in various localities throughout the United States. I don't recall any of them close to Cincinnati. I do know of a competing product being put out in Cincinnati. It is called Can-a-wood. It does not contain, to my knowledge, nitro-cellulose, solvent and wood filler. I don't know the exact contents but it is my understanding that it is not a nitro-cellulose product nor a cellulose acetate product. I know that the solvent is water and it is my understanding you cannot have nitro-cellulose or cellulose acetate with a water solvent.

(Testimony of Walter Silbersack—cross.)

I don't know whether Cornstalk Plastic is still being manufactured or not. I believe they are located in Iowa.

I never heard of Plastosa Pliable Wood Base.

Fixit and Mending Wood of Cleveland, Ohio have [165] agreed to discontinue. We haven't any evidence to the contrary.

I did not have Wood Amalgam on my list. I did not know if they are still in business. I never heard of the Celluloid Company putting out a product competing with liquid wood.

I know that Mr. Kritehevsky and Carl Schultz of Chicago, Illinois, who obtained a patent that we tried to get an interference with are not putting out a competing product.

I haven't seen Magic Wood lately. The only place I ever saw that product was in Woolworth's, and it is no longer there.

I can't say that our own product is sold by Sears now at a much lower price than it is sold at the hardware stores. I was in Sears Roebuck store in Tacoma this week and our cans were selling for 35¢. I don't know whether this is true generally throughout the United States.

I don't know whether this Kelex Wonder Wood is still in business. Dandy Wood agreed to discontinue and we have no evidence to the contrary. I do not know that they have, but I have no evidence or information that would lead me to believe otherwise. They definitely agreed to discontinue the product

(Testimony of Walter Silbersack—cross.)

and until I see evidence of a sale, I take it for granted that they have.

The Arco Manufacturing Company agreed to discontinue. The makers of both Dum Dum and Arco Dum Dum as I recall it both agreed to discontinue.

As to Three Star Wood Cement, I have no record of them among those that agreed to discontinue. They may still be in business. I have no evidence from any of our sales force of having seen any of it recently.

Fixit Mending Wood agreed to discontinue. We have had no evidence to the contrary or that they are still selling. [166]

Horne's Patching Wood agreed to discontinue. We have no evidence otherwise.

Our salesmen are instructed to send us samples of competing products on the market. The dozen and a half concerns that are still manufacturing are pretty generally scattered. I would say most of them are scattered in the East and Middlewest.

As to why this suit was not instituted directly against the Webb Products Company instead of Pacific Marine Supply Company was left entirely to our attorneys. I don't know why he chose Pacific Marine Supply Company. I do not know whether any of our salesmen called upon Mooseheart-Schleeter Company of Houston, Texas, and threatened that concern with an infringement suit if they continued to sell competing products. I do not know whether any of our salesmen ever called upon the

(Testimony of Walter Silbersack—cross.)

Pittsburgh Plate Glass Company of Los Angeles, California, and made a threat of patent infringement. Nor do I know whether such a threat was made against the California Hardware Company of Los Angeles. I know we called on them—I called on them. I did not notify them that we had the patent. I don't recall any conversation regarding the patent. I do not know anything about our salesmen calling upon the Huffman Hardware Company in Los Angeles. I called on them and telephoned. I did not mention any patent to these concerns. I did not leave any of our reprints. They may have been mailed to them, I can't answer as to that. I do not know whether any of our salesmen called on Pickering Lumber Sales Company of Kansas City, Missouri, and left reprints with them.

Q. In fact, there are just about as many concerns who have disregarded the patent and continued to manufacture in defiance of it as there are who have to discontinue? Isn't that true?

A. I do not think the number of companies manufacturing [167] today is as large as the number who have agreed to discontinue.

Q. That is the number that is manufacturing today?

A. The ones that I know of are all manufacturing today.

The number that have agreed to discontinue exceeds the number that are manufacturing that we know about. There may be some we don't know

(Testimony of Walter Silbersack—cross.)

about. None of the concerns ever informed us when they agreed to discontinue, that the competition against advertising of that character was too stiff for them to continue in business.

(The plaintiff then offered letters marked for identification Plaintiff's Exhibit 57, forwarded as a physical exhibit.)

Mr. Miller: I wish to object to the introduction of these letters as obviously it is merely a proposal to compromise any differences of opinion as between the intervener, Webb Products Company, and this concern.

The Court: What is the purpose of it?

Mr. Dike: The purpose is to show that the defendant asked for a license as a part of the negotiations, which he brought out himself.

The Court: Objection sustained.

Mr. Dike: Exception.

The Court: Allowed. [168]

The A. S. Boyle Company purchased the Addison-Leslie Company and took over this patent application in 1930. When we bought it, I made a very careful résumé of it and we were negotiating with the company and then we turned it over to the attorneys to carry on from there.

I knew in 1930 that the application had been denied with the exception of one or two narrow claims that are not even in issue in this case.

Q. And you considered the fact that the exam-

(Testimony of Walter Silbersack—cross.)

iner had denied the application, in establishing a purchase price, did you?

A. We took it to our attorneys and they assured us that we could very likely secure the patent.

I don't know that I personally looked over the record of the application and saw that it was denied by the Examiner at the time we purchased it but I read the attorney's opinion. I think I knew at that time that the Board of Appeals in the Patent Office had turned the application down.

Q. And with an application that had been denied by this tribunal in the Patent Office, you say that was the principal asset worth half a million dollars?

A. We relied on our attorneys' opinion that the patent still would be granted.

Q. And just what was the trade-mark "Plastic Wood" valued at in your arrival at the price of \$720,000?

A. We made no calculation trying to divide between physical assets, trade-marks or patent.

I didn't say that we merely wrote off the trade-mark "Plastic Wood" as having no value at all. I said we made no calculations trying to arrive at a division as to what part was patent, trade-mark or physical assets or goodwill. It is rather difficult to answer how we arrived at the price of [169] \$720,000 because an agreement to purchase of that size and kind and character is usually a matter of gradual agreement on both sides.

(Testimony of Walter Silbersack—cross.)

Q. Was the trade-mark “Plastic Wood” valued at any time?

A. I would certainly say it was.

I wouldn't say that it was the most valuable asset but that it was of value. I wouldn't say where to put the proportions as between the trade-mark and the patent application. I don't think anybody could put proportions on that. It is like a three-legged stool.

Q. If I understand correctly then, on the strength of your attorney's opinion, that he thought that he could get a patent even though the examiner and the Board of Appeals had denied his application, that you valued that as the principal asset towards the \$720,000 that you paid to the Addison-Leslie Company?

A. I would say one of the principal assets.

Q. Well, what were the others?

A. The other principal asset would have been the trade-mark.

Q. And what was the other one? Were there any more?

A. Well, there would be the mere asset, the physical asset.

I was not present at the trial that took place in the Supreme Court of the District of Columbia.

RAY B. MILLER

called on behalf of plaintiff testified as follows:

Direct Examination

By Mr. Dike:

I am 44 years old. I am a salesman, Northwest representative of The A. S. Boyle Company. I reside in Seattle. I have been connected with The A. S. Boyle Company since 1922, selling The A. S. Boyle Company products in Oregon, Washington, and British Columbia. In that connection I have had occasion to become familiar with the general trade in such materials.

I find that Cooperage companies use Plastic Wood more or less in the filling of knot holes and blemishes in the placques and barrels that come through that otherwise would be rejected. Two other companies here who make placques and barrels and such as that use Plastic Wood to fill in the knots and blemishes in the wood. It enables them to put the particular placque or the the particular plank through as a first class piece rather than being rejected otherwise it would be thrown out. That is, it would be rejected.

I have here one of the placques or planks which have been mended. This spot here has been mended with Plastic Wood. I did not see it filled. I have seen many of them filled though. This stave is representative of what I have seen manufactured. Posey Manufacturing Company at Aberdeen made that placque. They are purchasers of Plastic Wood.

(Testimony of Ray B. Miller—direct.)

I have seen it used at their factory for repairing plaques. We have had difficulty in getting the exact shade which they wanted to work on with this type of plaque and we have made a special colored wood for them. The Plastic Wood which we furnished was the exact appearance of that when the plaque was completed after being filled with Plastic Wood.

[171]

I first began working that territory for The A. S. Boyle Company in 1926. Before that I had been in the hardware business since 1922. The first time I contacted anything in the form of Plastic Wood was when the Addison-Leslie Company were manufacturing Plastic Wood. Prior to that I did not see anything in my territory which could be used for the same purpose for which Plastic Wood can now be used.

Cross Examination

I never saw anybody around a cabinet factory or wood working shop take some glue and wood sawdust and mix them up and make a putty of it. I never saw that done anywhere at any time. I never saw anybody make up a putty with wood sandings and glue to putty up anything.

My experience around cabinet making shops has been that they used Plastic Wood. I never went into a cabinet making shop prior to 1920. I don't know what was done then. This is the first artificial wood I know of. Cooperage companies have been using Plastic Wood for the last four or five years that

(Testimony of Ray B. Miller—cross.)

I know of. I introduced Plastic Wood to these cooerage companies to some degree. I worked with them on it. I did not teach them how to use it entirely. They had been using it to some degree previous to my working with them on it. Prior to the time that I taught them how to use Plastic Wood they had been using a substitute wood or wood that amounted to the same as Plastic Wood or similar to Plastic Wood but it did not work satisfactorily. I don't recall exactly what that material was. It was in bulk in a can. I don't know what the brand was at all. The first I saw that was about four years ago. I can't remember the brand name. I don't know what these cooerage companies were using in 1922. I hadn't contacted them previous to 1930. It was about four years [172] ago that I contacted the cooerage companies endeavoring to get them to use Plastic Wood, showing them the advantages of Plastic Wood where the placques came through with holes and knots in them and some of them otherwise would be rejected. [173]

DEFENDANT'S EVIDENCE

The defendant offered in evidence the following interrogatories:

Interrogatory 25: "Did Manfred Ethelwold Griffiths or his associates or representatives institute an action under the provisions of Section 4915, Re-

vised Statutes of the United States, in the Supreme Court of the District of Columbia, entitled 'Manfred E. Griffiths, et al., vs. Thomas E. Robinson, Commissioner of Patents, No. 50185,' in order to secure the granting of United States letters patent No. 1,838,618?"

A. "Yes."

Interrogatory 26: "If the answer to the preceding interrogatory is 'Yes,' were any other references introduced in evidence in the trial of that action for consideration by the Court besides the following:

United States patent Hyatt & Blake, 89582,

May 1, 1869;

Reagles, 311,203, January 27, 1885;

Merrick, 1,203,229, October 31, 1916;

Black, 1,294,355, February 11, 1919;

Hinze, 1,594,421, August 3, 1926;

Grawl, 1,652,353, December 13, 1927;

Ellis, 999,490, August 1, 1911;

British Patents

Bulling & Reese, 169,177, December 18, 1822;

Mennens, 2,775, November 13, 1860."

A. "No."

Interrogatory 28: "If the answer to interrogatory 25 is in the affirmative, was a sample of the composition disclosed in the Merrick patent, No. 1,203,229, placed in evidence or disclosed to the Court during the trial of this action?" [174]

A. "Yes."

(The defendant then offered in evidence an uncertified copy of the file wrapper and contents of the Griffiths application for which a certified copy was substituted after the trial was completed. This certified copy was substituted for the uncertified copy which was tentatively received in evidence as defendant's Exhibit A-5. This is forwarded as a physical exhibit.)

(It is stipulated subject to correction by reference to the original exhibit that the references made of record by the Patent Office in the Griffiths application were as follows:

1. In the Office Letter of July 11, 1924,
paper #2

Eckstein	458,157	Oct. 25, 1891
Dietz et al	133,969	Dec. 17, 1872
Jarvis	329,313	Oct. 27, 1885

2. In the Office Letter of Feb. 14, 1925,
paper #4

Reagles	311,203	Jan. 27, 1885
Wills et al	1,187,890	June 20, 1916

3. In the Office Letter of Sept. 8, 1926,
paper #8

Mennens (Br.)	2,775	Nov. 13, 1860
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4. In the Office Letter of Oct. 31, 1927, paper #13

Ellis	999,490	Aug. 1, 1911
Balke et al	1,468,222	Sept. 8, 1923
Lindsay	1,493,207	May 6, 1924
Ritschke	1,497,028	June 10, 1924

5. In the Office Letter of May 24, 1928, paper #16

Hyatt	89,582	May 4, 1869
Merrick	1,203,229	Oct. 31, 1916
Black	1,294,355	Feb. 11, 1919
Hinge	1,594,521	Aug. 3, 1926
Graul	1,652,353	Dec. 13, 1927
Bulling (Br.)	169,177	Dec. 18, 1922

[175]

(The defendant offered in evidence a copy of the decision of the Board of Appeals which was admitted as defendant's Exhibit A-6. This is reproduced in the Bk. of Exhibits. The copies of the following patents and publications were offered in evidence and received and marked as indicated. They are reproduced in the Bk. of Exhibits.

United States Patent to Pierson No. 65,267, May 28, 1867—Defendant's Exhibit A-7.

United States Patent to Merrick No. 1,203,229, October 31, 1916—Defendant's Exhibit A-8.

Copy of page 785 of "Engineering" dated Dec. 9, 1921, Defendant's Exhibit A-9.

British Patent to Oblasser dated Oct. 25, 1892 No. 19,242—Defendant's Exhibit A-10.

British Patent to Thompson No. 27,534, Nov. 23, 1897—Defendant's Exhibit A-11.

United States Patent to Black No. 1,294,355, Feb. 11, 1919—Defendant's Exhibit A-12.

United States Patent to Eckstein, No. 458,157, August 25, 1891—Defendant's Exhibit A-13.

United States Patent to Dietz et al., No. 133,969, December 17, 1872—Defendant's Exhibit A-14.

United States Patent to Ellis, No. 999,490, August 1, 1911—Defendant's Exhibit A-15. [176]

United States Patent to Graul No. 1,652,353, Dec. 13, 1927—Defendant's Exhibit A-16.

British patent to Mennens No. 2,775, dated 1860 Defendant's Exhibit A-17.

United States Patent to Arnold No. 1,195,431, August 22, 1916—Defendant's Exhibit A-18.

United States Patent to Lindsay No. 1,493,207, May 6, 1924—Defendant's Exhibit A-19.

United States Patent to Hyatt and Blake No. 89,582, May 4, 1869—Defendant's Exhibit A-20.

United States Patent to Balke No. 1,468,222, Sept. 18, 1923—Defendant's Exhibit A-21.

United States Patent to Reagles No. 173,865, Feb. 22, 1876—Defendant's Exhibit A-22.

United States Patent to Jarvis, No. 329,313, Oct. 27, 1865—Defendant's Exhibit A-23.

United States Patent to Dunwoody and Wills, No. 1,187,890, June 20, 1916—Defendant's Exhibit A-24.

United States Patent to Ritschke No. 1,497,028, June 10, 1924—Defendant's Exhibit A-25.

British Patent to Bulling and Reese No. 169,177, dated Dec. 18, 1922—Defendant's Exhibit A-26.

United States Patent to Kritehevsky No. 1,759,907, May 27, 1930—Defendant's Exhibit A-27.

Mr. Miller: I might explain that this patent (the Kritehevsky patent) is not offered as prior art, but to explain, and very briefly to the Court the nature of the patent that Griffiths endeavored to get into interference with while his application was pending, and it has a bearing on the interpretation of the claims that he now has.

Two British Patents to Parks No. 2,675, Oct. 28, 1864, and No. 1,614, May 16, 1868. The latter patents were introduced as illustrative of the state of the art and were marked Defendant's Exhibit A-28.) [177]

HENRY C. ROLLER,

a witness called on behalf of the Defendant, testified as follows:

Direct Examination

By Mr. Miller:

Q. What is your full name?

A. Henry C. Roller.

Q. Your age?

A. Fifty-eight.

Q. Where do you live?

A. In Glendale, California.

(Testimony of Henry C. Roller—direct.)

Q. What is your present occupation?

A. I am carrying on some development work in connection with some special applications of ship's bottom protection.

Q. State what your qualifications and experience has been in connection with nitro-cellulose compositions.

A. Well, approximately in 1896 I first became interested in cellulose through connections with the original American Viscose Company process, which was brought over from England by Cross & Bevan and put in the hands of Arthur D. Little of Boston, Mass. as their advising chemist.

About the same time I began receiving my education as an industrial chemist at Columbia University. From that I became associated with the Celluloid Company in Newark, New Jersey, who are manufacturers of celluloid, as one of their superintendents, and for a few years I held that position until another position in the same company, as development engineer in charge of their development department, was added to what I was already doing. The first department was purely manufacturing. That position necessitated intimate knowledge of all the processes of manufacturing celluloid, its application, what other people were doing, both in this country and abroad, to see [178] whether we could exchange ideas or possibly better themselves.

In other words, familiarizing myself with the industry from both the manufacturing point of view

(Testimony of Henry C. Roller—direct.)

and from the point of view of improvements as they were bound to come along. That position I held for thirteen or fourteen years, possibly.

I was called away from the Celluloid Company to use what knowledge I might have for war work, as to the protection of balloon fabrics, which were giving the government a great deal of trouble on account of the excessive loss of gas. And with that I lost connection with the Celluloid Manufacturing Company, but, as a celluloid man, I have kept in touch with it, not from the celluloid point of view but from the lacquer point of view, which is an entirely separate and distinct branch of the nitrate business.

Q. Over what period of time were you employed by the Celluloid Company?

A. From about 1904 or 1905 to 1917—somewhere along in there—1917.

Q. Did you have occasion while employed by that concern to visit European manufacturers of nitro-cellulose products and celluloid products?

A. Yes.

Q. And what did your work with the Celluloid Company during that period of time generally consist of?

A. Well, from the manufacturing end. The one department, I might explain, was that in the production of their camphor, and that became so easy that they wished on me this other position or job, to carry on their development department, and that

(Testimony of Henry C. Roller—direct.)

meant, of course, that I had to do and to know everything concerning the manufacturing details, from their acid mixtures through their washing operations down to the bleaching process, coloring, [179] moulding, finishing. In other words, all the things for which celluloid was used.

Q. Have you ever testified in a patent infringement suit before, as an expert witness?

A. No.

Q. Do you recall any books that you have read pertaining to nitro-cellulose and nitro-cellulose compounds?

A. Oh, yes. There have been many of them. The usual custom is to confer with the standard, a book by Worden which came out around about 1911, to which you can refer pretty nearly any problem that you may have in this one line. And then there are publications constantly coming out, German publications, the Society of Chemical Industry publishes a periodical, in which a separate section is devoted to that sort of thing; various German books, various translations of French and German.

Q. Will you speak briefly how nitro-cellulose is prepared?

A. Broadly, the operation consists of submerging a pure form of cellulose, such as cotton, as has been testified before, in a definite mixture of sulphuric and nitric acids. In detail, the thing is quite involved, because, depending upon the use that you want to put your finished product to, your propor-

(Testimony of Henry C. Roller—direct.)

tion of acid, your time and your temperature are variable so that the thing is rather complicated; and to give the whole thing in a nutshell, is just impossible.

Q. About how many nitro-celluloses are there?

A. Well, figuring back as to that time, there was the gun-cotton which both the Army and the Navy kept within very strict nitrogen limitation; the old collodion cotton, which continued a long while after its photographic use for collodion; then coming down to our own industry, what we call the film and varnish pyroxylin. Then there is what we call [180] roll material, from which plastic things are made, where the material is formed in blocks and shaved off.

And, again, that is subject to modifications depending on whether you want to use the thing for imitation ivory or for clear sheets or for special things; and in those days they used a great deal of it for the coating of ladies' dress stays, which had to be a particular form of nitration.

Q. Prior to 1916 what were the generally recognized solvents of nitro-cellulose?

A. Oh, that depends, again upon what you want to use it for,—wood alcohol, ether, grain alcohol, acetone, amyl-acetate and *alym*-alcohol.

Q. Have you read and become familiar with the Griffiths patent, that is the patent in suit here?

A. Yes.

(Testimony of Henry C. Roller—direct.)

Q. In a composition of that character is there any advantage in using as a solvent for the nitro-cellulose acetone in place of alcohol and the ether?

A. Yes. Where they specify "celluloid scraps" it is a better solvent and a quicker solvent than the ether-alcohol mixture would be.

Q. After the composition is prepared and is ready to apply to filling a depression in wood, does it make any difference whether you use acetone or alcohol and ether for a solvent for the nitro-cellulose?

A. Not a bit, because it all evaporates.

Q. Have you read the Pierson patent, No. 65267?

A. Yes.

Q. What sort of a binder does Pierson describe near the bottom of the first column of page 1 of his patent? What kind of material is that described?

A. At the bottom of page 1? [181]

Q. Bottom of column 1, page 1?

A. Well, he speaks here of "The pyroxyline is fully soluble in ether and alcohol, etc., while for my plastic agent the first of the above-named processes was quite unfitted for my purposes, explosiveness being very undesirable for the plastic manufacturers, and so, also, the variety of pyroxyline or gun-cotton used in the photographic art", the colloid to which I referred a moment ago. Any one of these would form a gelatinous, sticky binder which would flow together with any filler which might be added to it.

(Testimony of Henry C. Roller—direct.)

Q. He mentions collodion?

A. Yes.

Q. Is that a nitro-cellulose?

A. Yes.

Q. Is that a nitro-cellulose of such a nitration as is suitable for a plastic wood?

A. Yes, it could be used for that.

Q. How about this pyroxyline that he mentions? Is that a nitro-cellulose?

A. It is.

Q. Is that of a character that can be used as a binder for Plastic Wood?

A. Yes.

Q. I notice he mentions xylo-dine. What is that material?

A. That is the British name for celluloid.

Q. Is there a disclosure that you have noticed in that patent in making up a plastic composition similar to Plastic Wood?

A. Well, there is. Here he speaks on page 3, the first column of page 3, of taking a plastic, alcohol, ether, charcoal powder, and in place of the carbons, he indicates lamp black. "Lamp black or plumbago may be substituted for the [182] charcoal, sawdust, straw or any vegetable powder or fibre may also be substituted for the charcoal——"

Mr. Dike: Will you designate the place? I am not sure. Can you give us the paragraph?

A. It is the second full paragraph on the third page, not considering the first partial paragraph.

(Testimony of Henry C. Roller—direct.)

Mr. Miller: Q. What do you understand Pierson refers to by his "plastic" as used in that paragraph?

A. Why, the natural assumption would be that of having taken pyroxyline in some form, either as collodion cotton or pyroxyline and adding enough solvent to gelatinize it.

Q. I notice here on page 1, column 1, a second paragraph here states how he procures this material that he designates "plastic" by taking cotton, hemp, flax, grass, wood, starch or other equivalent vegetable matter, by acids * * * to soften, modify and render soluble" these materials; and then, in a corresponding paragraph directly opposite in column 2 he describes taking the cotton fibre and immersing it in nitric acid or a mixture of nitric and sulphuric acids to obtain a plastic. What sort of materials do you judge from that is plastic to be, mineral? Or is that nitro-cellulose?

A. A nitro-cellulose, of course.

Q. Is there any disclosure in the Pierson patent that the nitro-cellulose that he uses is the nitro-cellulose having a higher nitration than that of gun-cotton?

A. Only that he warns you that the higher nitration, that is to say the one which is in the explosive or gun-cotton class, is not desirable on account of its solubility and on account of its danger.

Q. Now on page 2, column 1, near the top of that column, in fact the first paragraph, beginning in

(Testimony of Henry C. Roller—direct.)

this column, Mr. Pierson states that "In practice, I propose to produce the [183] fabrics above named by mixing the plastic and solvents with mineral and vegetable powders, as sand, powdered stone, glass, brick earthenware, etc., carbonates of lime, sawdust, charcoal, and other carbonaceous substances." What composition, in simple language, do you understand he aims to make in that paragraph?

A. A plastic.

Q. Containing what?

A. Containing pyroxylines which have been reduced to a gelatinous form, and enough of these additive products, powdered stone, glass, brick, earthenware, carbonates of lime, sawdust, charcoal, to make the kind of a paste that he wants.

Q. What is this plastic composition that he describes in the middle paragraph of column 1, page 3? Is that a thin liquid, do you understand, from the proportions given?

A. That depends upon the proportions of solvent that he uses with relation to the degree of nitration or the pyroxyline he uses. If he uses a pyroxyline which is moderately soluble in the mixture of alcohol 4, ether 4, why he will have a limpid solution. If it is difficultly soluble it will merely be more solid.

And may I make a side remark here in that respect? In dissolving the nitro-cellulose it is possible to make a very, very thin solution and recover the cellulose in the form in which it was first put in

(Testimony of Henry C. Roller—direct.)

the solvent. In other words, the fibres will come back as fibres and one can quite often identify the source of material used in making the pyroxyline by throwing it out of solution that way and washing and recovering the cellulose.

Q. Then you understand from that particular paragraph, do you, that the composition that he proposes to make that [184] is useful for statuary and mouldings is one of the nitro-celluloses lower than: gun-cotton, 1 part, alcohol 4, ether 4, and a filler which may be charcoal, sawdust, straw, or vegetable cotton? Is that correct?

A. It is.

Q. Now, I notice in this formula that Mr. Pierson gives he states that charcoal powder or its equivalent, sawdust or vegetable powder is to be used 1 to 16 parts. Suppose that we have one of these filling ingredients Pierson in that formula has only one part—that is we have only one part of sawdust in that formula, what percentage by weight would the sawdust have in that composition?

A. Well, if you are measuring that all out by volume to begin with, obviously your relation of your product to your other ingredients would depend on the specific gravity of the material you use. As he speaks of "parts" as identical, we presume he is taking them all by weight. Then, under those conditions, he is giving you a total of ten parts and one part of sawdust, so he has got one part of sawdust in ten.

(Testimony of Henry C. Roller—direct.)

Q. Or 10%?

A. Yes.

Q. Supposing that he had two parts sawdust you would have eleven total parts, of which two parts would be sawdust?

A. Exactly.

Q. And that would compute out about 18% or thereabouts?

A. Whatever it is. I have not calculated it.

Q. I notice that Pierson suggests that oil may be used to advantage in that composition. What would be the effect of adding oil to a composition of nitro-cellulose 1 part, alcohol 4, ether 4, and sawdust, say 4 parts?

A. Well, after the solvents had been driven off your resulting mass would be more plastic by reason of the [185] softening action of the oils in there, assuming that you use any of the ordinary oils that are used, i.e., castor oil, linseed oil, rapeseed.

Q. Does the presence of the oil in compositions of that character have anything to do with the brittleness of the ultimate composition?

A. Yes.

Q. What effect does it have on that?

A. It reduces the brittleness.

Q. Do you know whether or not it was well-known, say prior to 1915 that in nitro-cellulose compositions castor oil could be used as a material for reducing the brittleness of nitro-cellulose compositions?

(Testimony of Henry C. Roller—direct.)

A. It was the accepted material to use in celluloid.

Q. Now, referring to claim 5 of the Griffiths patent, do you have in the Pierson patent a description in that lower paragraph of column 1, page 3, "A doughy, putty-like plastic composition comprising nitro-cellulose in solution, containing a volatile liquid and a finely-divided cellulose filler?"

A. Yes, you do if you used your sawdust or straw or vegetable powder which Pierson specifies.

Q. Now, is that composition of such proportions that it will harden upon mere exposure to air to substantially the rigidity and solidity of wood?

A. Yes.

Q. What will be the appearance of that composition as compared with the plastic wood, when the charcoal is used?

A. If charcoal were used, your finished mass will be black. In other words, each one of these fillers which I specified will give you the general appearance and character of the filler you use. If you use sand, you will get a hard, gritty substance; if you use light, soft filler you will get a [186] light-colored material, because the binder itself is almost colorless.

Q. When you refer to "binder" what do you mean?

A. I mean the nitro-cellulose which has been plasticised or dissolved by the solvent.

Q. Referring to Claim 6 of the Griffiths patent, do you have in the Pierson disclosure as made in

(Testimony of Henry C. Roller—direct.)

this same paragraph a doughy, putty-like plastic composition comprising nitro-cellulose in a solution containing a volatile liquid and a finely-divided cellulose filler?

A. Yes, you do except for the proportions that we just spoke of a minute ago here where you have—only 18%. You would have the same conditions with 18% cellulose filler.

Q. You see no distinction between the composition as defined by claim 6 of Griffiths and what is described here in the middle of the first column of page 3 of Pierson?

A. They are substantially the same.

Q. Wherever Pierson has more than two parts of his sixteen filler present, why, he will then have in excess of fifteen parts by weight of the whole composition. Is that true?

A. Yes.

Q. Referring to claim 8 of the Griffiths patent, does the composition as defined by this clause differ from what is disclosed in the Pierson patent at these paragraphs we are referring to?

A. Pierson merely mentions an oil whereas Griffiths mentions a "non-drying oil", an oil that would not dry by exposure to air, like linseed oil as against castor oil or olive oil.

Q. What is the distinction between a drying oil and a non-drying oil?

A. Drying oils are those which will oxidize and dry [187] if exposed to the weather whereas non-

(Testimony of Henry C. Roller—direct.)

drying oils which undergo the same treatment will not oxidize, but will remain fluid. Castor oil is a type of non-drying oil and linseed oil is a type of the drying oils.

Q. Do you know of any reference books or patents wherein castor oil has been suggested as a means for ameliorating the brittleness of the nitro-cellulose composition?

A. Well, that book you mentioned this morning, Bockman, spoke of it.

Q. I hand you a copy of Bockmann and ask you to designate where he suggests using castor oil.

A. On page 1 of his introduction—this book was published in 1907—at the top of the page he says: “To ameliorate the hardness and brittleness which unfits it for certain uses, the product is kneaded with castor oil, cottonseed oil or other fatty oils.” And he refers back to Parkesine method.

Mr. Dike: Q. What page is that on?

A. That is the first page of the introduction in Bockmann.

Mr. Miller: Q. Is there a disclosure on that page incorporating that castor oil and nitro-cellulose?

A. Yes, because he says: “Parkesine is interesting as the forerunner of celluloid, and its preparation and application must therefore be dealt with. The inventor prepared it by mixing anhydrous wood naphtha with gun-cotton, and thus obtained a solution suitable, according to its consistency, for purposes ranging from waterproofing clothing to the

(Testimony of Henry C. Roller—direct.)

insulation of telegraphic wires, manufacturing of tubes, etc.”

And then he goes on to state about amelioration of hardness and brittleness and he adds some of these uses. He speaks of Parkesine as being the more adaptable to celluloid. [188]

Q. Can you refer to any statement that makes use of nitro-cellulose composition in which castor oil is used for that purpose?

A. Well, Pierson mentions it, for one. In fact pretty near all of them do because it is such a common thing. It is like putting—

Q. Referring to the Parkesine patent—or the Parks patent.

A. Parks is again one of the earlier ones.

Q. Do you find any disclosure in any of them advocating the use of castor oil in a nitro-cellulose composition to reduce the brittleness?

A. Well, in the Parks.

A. Just a second. I have a photostatic copy here. This is the one, 1864, and the number is 2675, and on line 35 of page 3 he says: “The gun-cotton compound I have used alone. It, however, became too hard and brittle to be uniformly employed for certain purposes. To avoid this I kneaded with it in a mixing machine castor oil or many other similar oils.”

Q. Could there be any other purpose for adding oils to the composition that you described, other than to reduce the brittleness of the nitro-cellulose?

(Testimony of Henry C. Roller—direct.)

A. Not of an oil of that nature and I do not know of any—there are certain blended oils which added to the pyroxyline solution contribute a little bit of toughness.

Q. That would be the sole purpose of adding oil to that composition he describes?

A. Yes.

Q. Now referring to claim 11.

The Court: The witness seems to make some distinction between “toughness” and “brittleness.”

A. May I say this: Brittleness is friability, where [189] a thing will snap off. Toughness might be something where an article will stand repeated flexing without breaking.

The Court: That is brittleness raised to the Nth degree?

A. It is more than that. You have noticed possibly, where you want to break a piece of metal and haven't anything to cut it with, and some pieces you have to bend back and forth before they break. The longer it takes before they break off, the tougher they are. It is probably more a matter of degree.

Q. Mr. Roller, I wish you would explain to the Court how your experience in connection with the celluloid industry has any bearing or relationship to plastic compositions, such as are disclosed in the Griffiths patent?

A. Celluloid and plastics such as you have asked about are so closely connected that one automatically leads to the other. For example, plastic materials

(Testimony of Henry C. Roller—direct.)

such as these are nothing more than nitro-cellulose with a larger amount of solvent for making moulds and things of that sort as against practically the same sort of compositions with less solvent so that they may be put through the process of manufacturing celluloid with the minimum loss of solvent.

Q. And how is most commercial celluloid made?

A. You are speaking of celluloid?

Q. Yes. How was it made while you were working with the Celluloid Company?

A. By taking nitro-cellulose which has been nitrated to that degree of nitration which has been found by experience to be the best suited for a specific objective. Let's cite an example, Ivory: That is nitrated so that one will get a specific degree of nitration, which was at that time called solubility. It was then after it had dried, mixed with camphor which sometimes [190] runs from as much as 30 or 40% of the original weight of the cellulose. These two are mixed together mechanically, dried and put into containers and the desired amount of solvent, which might be alcohol or a mixture of alcohols, and allowed to soak. That is to say, because the amount of solvent was so relatively small, the penetrating time is longer. After the soaking period, which is a matter of a day or two, this very tough but still gummy material was cut up in the right sized batches, or weights for batches, and put on hot rolls and manipulated so that the mass was made homogeneous. At the same time the solvent was driven off.

(Testimony of Henry C. Roller—direct.)

The reason for the heated rolls was that heat, plus the camphor, plus the solvent, hastens the formation of a uniform material which can be taken and piled up into what are known as chases or forms, (mere iron boxes) to the depth of about 6 inches. This is then put under hydraulic pressure, heat again applied, so as to make the mass one entire solid body; and, depending upon whether you wanted sheets of a given thickness, the solvent remaining was allowed for subsequent operations.

The block was run through a machine, a planer with a large knife, and sheets shaved off and hung up. This means that when all the solvent has been driven off, they are returned to the further process or operation, where they are polished or cut or moulded for whatever purpose they want them for.

Q. In both the manufacture of celluloid and the manufacture of a plastic composition, such as disclosed in the Griffiths patent, we are dealing with a substance that has nitro-cellulose as a base or binder for a starting point? Is that correct?

A. That is correct.

Q. And in both of them we are adding solvents and fillers of various kinds? [191]

A. Exactly.

Q. Now, referring to claim 11 of the Griffiths patent, do you have a copy of that patent?

A. I have it right here.

Q. How does the composition as defined by that claim differ from the disclosure that is made in the Pierson patent?

(Testimony of Henry C. Roller—direct.)

A. They are substantially the same.

Q. And it differs in what, if any, respect?

A. Well, merely in the fact that they use a slightly different solvent which will bring about the same result, as they will go off just the same, and the oils which he mentions, says, "A non-drying oil."

Q. In the Pierson patent you do have nitro-cellulose in a solution that is volatile in part, at least, do you not?

A. Yes.

Q. And although this clause specifies a ketonic liquor, what difference does that make in the composition of Pierson?

A. It makes no difference. It is a substitution of one solvent for another.

Q. Say in 1915, was acetone, which is a ketonic liquor, a well-recognized chemical equivalent of ether and alcohol, insofar as its ability to dissolve nitro-cellulose was concerned?

A. Yes, very well known.

Q. In this Pierson patent where he uses the sawdust or vegetable powder do we have a finely-divided cellulose filler as called for by claim 11?

A. If he uses sawdust he would have a finely-divided cellulose, yes.

Q. And suppose he uses vegetable powder?

A. He would still have it. [192]

Q. In the Pierson composition, is that of such a character that it will—

(Testimony of Henry C. Roller—direct.)

The Court: Let me ask—"vegetable powder", just what does that mean?

A. A vegetable powder, I would take from the description here, is nothing more than almost any form of cellulose which has been ground and cut or in some method reduced to a form much finer than it is in its natural state. For example, the cotton fibre might normally be, let us say, one-half inch long. By proper cutting, that is converted into what is known as cotton flocks, where the fibre is reduced to one-half or one-quarter of a millimeter, which of course makes a powder out of it.

The Court: And "vegetable powder" is such a powder as has some different meaning than that given it by a layman, where all parts of the vegetable—

A. (Interrupting) In other words, the pulp or juicy materials of the vegetable have been driven out by drying or some other means, possibly by extraction, if it is water, until you eventually have nothing but a fibre; and this is, more than likely, a technically improper statement. In other words, to use it for chemical reaction would require more than purification, as for example in the case of linters, which is used for explosive purposes, they are put through a rather long process to make them pure and ready for further operation.

Mr. Miller: Q. What is cellulose?

A. Cellulose is the generally-accepted term for that part of the plant structure which forms what

(Testimony of Henry C. Roller—direct.)

you might call the equivalent of nature's building material for the construction of the plant, to make the ultimate stems stronger or supple or stiff, or whatever nature might have intended for them. In other words, it is the material which forms the greater part of nature's building material in plant life. [193]

Q. Would you say that practically all vegetation contains cellulose?

A. I believe it is correct to say that all vegetation contains it to some greater or less degree.

Q. When you speak of vegetation do you include trees, so that wood is largely cellulose?

A. Yes.

Q. This vegetable powder that Pierson refers to would necessarily be largely cellulose, would it?

A. Yes, I take it that.

Q. Now, when Pierson makes up this composition of plastic, or nitro-cellulose, 1 part; alcohol 4; ether 4; and sawdust or vegetable powder, 1 to 16, does he have a composition there of such proportions as will harden upon mere exposure to air to substantially the rigidity and solidity of wood, as called for by claim 11 of the Griffiths patent?

A. Yes, he would have.

Q. And can you tell what proportions he would have to have of his sawdust or vegetable powder so that the filler would be present in not less than fifteen parts by weight, as called for by Claim 11 of the Griffiths patent?

(Testimony of Henry C. Roller—direct.)

A. Well, he would obviously have to take something on which his solvent would react,—say take one part of nitro-cellulose, four of solvent, and say two-thirds parts of his filler.

Q. If he makes up a plastic with one part plastic or nitro-cellulose, alcohol four, ether four, and sawdust two parts, or filler—

A. (Interrupting) Let me see. That would figure up to 1, 4, 4 and 2?

Q. Yes.

A. Well, that would be about twenty some odd percent, [194] wouldn't it?

Q. I haven't figured it out.

A. I haven't figured it out, either.

Q. But it would be in excess of fifteen parts?

A. Yes, it would.

Q. Referring to claim 15 of the Griffiths patent, how does that claim differ from the disclosure made in Pierson?

A. Well, he comes out and says specifically that he wants to add to that castor oil and a resinous body.

Q. What sort of a solvent does Pierson use as compared with the solvent Griffiths calls for in his claim?

A. Pierson uses, preferably, his mixture of ether and alcohol as against Griffiths' solvent of wood alcohol or methyl-acetone or some of the solvents which came into use after the time of Pierson.

(Testimony of Henry C. Roller—direct.)

Q. Pierson in this claim 13 refers to acetone, doesn't he?

A. Pierson in claim 13?

Q. I mean Griffiths.

A. Yes.

Q. And that is the chemical equivalent of Pierson's solvent, alcohol and ether?

A. Yes. In other words, it is a solvent which probably—I am not sure of this at all, but I presume that acetone was found to be a better solvent after Pierson's time.

Q. Now, what was the effect of the castor oil and the "resinous body" that is specified in Griffiths' claim 13?

A. Castor oil has always been used in the celluloid business to add to such compositions where more than the normal amount of flexibility is wanted. The resins are similarly used where something more than the natural—if you can call it [195] that—the natural tackiness of the celluloid composition is wanted.

Q. What do you mean by "tackiness?"

A. Tackiness is the adhesiveness or the ability to adhere to something besides itself.

Q. Would you say that in 1915 anybody familiar with the composition as disclosed in Pierson, if he wanted to increase the stickiness of his composition, that it would naturally occur to him to introduce a small amount of resin for that purpose?

A. Yes, I think it would.

(Testimony of Henry C. Roller—direct.)

Q. Suppose that he wanted to reduce the brittleness, make the composition a little tougher, what would he introduce for that purpose?

A. If he were looking for cost, he would use castor oil, or if he didn't care so much about cost he might increase his camphor content.

Q. Referring to claim 15 of the Griffiths patent, how does the composition as defined in his claim differ from what is disclosed in Pierson?

A. Well, nothing more than he gives proportions there, while Pierson does not state.

Q. What proportions do you have reference to?

A. He speaks here of limiting the amount of wood filler to be used at "Not less than fifteen parts by weight."

Q. Pierson, when he uses in excess of two parts sawdust, does he have his wood filler more than fifteen parts by weight?

A. When used in excess?

Q. Yes.

A. Yes, he would have.

Q. I notice in claim 15 that he specifies "A non-drying oil." Is there any disclosure of that in Pierson?

A. Pierson merely mentions an oil, in his second full [196] paragraph on page 3 and in the first paragraph of the second column on page 2 he again mentions oil. Pierson says further down linseed oil or turpentine may be used. Now, linseed oil and cottonseed oils and castor oils were all known at that time

(Testimony of Henry C. Roller—direct.)

and could easily be used as a means of softening that.

Q. Is there any particular advantage in using a non-drying oil in a composition of this character, over a drying oil?

A. Personally, for some applications, I do not see that there is because while it is true that castor oil is quite soluble in the solvent used for nitro-cellulose for the celluloid business, at the same time any oil which we mix in to make a pliable mixture of any kind would be likely to impart its flexibility to whatever it went into.

Castor oil has a decided objection, that you cannot add more than a certain amount because if you do it oozes out and your product becomes smelly or rancid or greasy. As an illustration, in the case of the manufacture of old celluloid collars and celluloid cuffs and shirts, anything over 7% would make itself evident, and therefore 7% was never exceeded. The usual percentage was around 4.

Q. How about the use of a mineral oil, such as the ordinary lubricating oil? Would that be suitable?

A. There, the difficulty of getting it mixed into a batch I imagine would be so great it would be automatically abandoned.

Q. And with respect to Claim 15 of the Griffiths patent you have disclosed the same thing in the Pierson patent, with the single exception that Pierson does not distinctly specify a non-drying oil and

(Testimony of Henry C. Roller—direct.)

Pierson does not include in this composition the resinous body? Is that correct?

A. That is correct. [197]

Q. Referring to claim 16 of the Griffiths patent, do you also find the same construction or the same composition in the Pierson patent with the single exception that Pierson does not include a resinous body and does not distinctly state that his oil is a non-drying oil?

A. That is correct, also.

Q. Do you find any distinction at all between the composition as defined in claim 17 of the Griffiths patent and the composition described in the Pierson patent?

A. No, because they both specify a dough-like—a composition for hole filling and filleting which before exposure to the air is dough-like and putty-like and contains finely-divided wood, nitro-cellulose, a common volatile liquid, and after exposure to the air has a wood-like rigidity and solidity.

Q. This is true of Pierson, the patent you have there?

A. Both the same.

Q. With regard to claim 18 of the Griffiths patent, how does that compare? How does the composition in that claim compare with what is described in Pierson?

A. Substantially the same.

Q. The limitations as to the wood filler, that the wood filler shall be present between fifteen and 30

(Testimony of Henry C. Roller—direct.)

percent by weight, is that within the limits defined by Pierson of 1 to 16 parts of sawdust?

A. Yes.

Q. Now I notice that the Pierson patent makes some other disclosures about using some other fillers. Up here near the top of column 1, page 3, he says that he proposes to make a composition of "plastic, 1 part; alcohol, 4; ether, 2; sand, 5". [198] Do you know what kind of a composition that would make?

A. Well, it would probably make a very hard, gritty composition as against a soft, smooth composition if wood flour were used. More broadly speaking, I should say that the character of the filler that you used would be imparted to your composition. If you used black, gas black or charcoal, you get a black stuff. If you used cork, you would get a material which had some of the characteristics of cork, both in color and in feel; and so on, in using iron filings or anything else that one might be foolish enough to want to put in.

Q. Suppose that you used pine flour, very fine pine sawdust, what would the composition be like in that case?

A. Probably very similar to that where you used the sawdust from any wood which is more or less similar. Take, for example, spruce or poplar. The amount of natural resins in fine sawdust of that kind I hardly think would be sufficient to impart their resinous qualities to the product that you would

(Testimony of Henry C. Roller—direct.)

make because these things there are present not in an extractable form.

Q. Extract them from the solvent?

A. You could do it, yes.

Q. Supposing you included—instead of using pine flour, suppose you took ebony.

A. Ebony is a great deal denser.

Q. How would your product be, then?

A. Your product, in the same proportions, would probably be a bit harder than that made from the use of pine.

Q. That would be the color of ebony?

A. Yes.

Q. Suppose you used vegetable ivory?

A. That also would be tough, and hard, because vegetable ivory is the material they used to speak of—I have [199] forgotten. I am speaking about 1936 against something far back. That is the material they used for making buttons. Consequently your material would have to be of the hardness of buttons.

Q. What is vegetable ivory?

A. Vegetable ivory is a gum—more a sort of a nut. The thing looks very much like an avacado seed and is allowed to dry until it becomes just as hard as animal ivory, and that is used as a means of making buttons—or used to be. I don't know whether it is now or not.

Q. I notice near the bottom of that same column Pierson proposes to make another composition by

(Testimony of Henry C. Roller—direct.)

taking plastic, 1 part; alcohol, 4; ether, 2; and chalk, 1 to 4. What kind of a composition would that make?

Mr. Dike: Where is that?

Mr. Miller: Column 1, page 3, near the bottom.

A. Well, that would make a white composition, chalk being white; and if you added too much of the chalk it would be bound to make a mark because the binder would not be there in sufficient quantities to hold all of the filler.

Q. Would you say that practically any finely-divided filler could be used in a composition of nitro-cellulose or plastic and a mixture of alcohol and ether and produce a composition that would have the characteristics of the filler, when it was completed?

A. Provided only one thing, that the filler that you used was not soluble in the paste which you make up using nitro-cellulose and the volatile solvent for the nitro-cellulose.

Q. In the Griffiths composition does a chemical reaction take place between the finely-divided wood and the nitro-cellulose or the acetone or the benzol or the toluol?

A. None that I can imagine. [200]

Q. The wood remains in there as wood particles after the composition hardens?

A. Yes.

Q. And the same would be true if you use a

(Testimony of Henry C. Roller—direct.)

sand filler, that the sand would remain there as sand particles?

A. Yes.

Q. And the same would be true of chalk or any other filler?

A. Anything in which the filler is not soluble in these solvents with nitro-cellulose.

Q. Now I direct your attention to page 75 of "Engineering." Do you have a copy of that before you?

A. Yes.

Q. Directing your attention to the article entitled "Plastic Wood," have you read that article?

A. I have.

Q. In that article he states that the Plastic Wood is a collodion preparation. What do you understand is collodion?

A. Well, as I said yesterday, I think I would understand collodion, as of that date, to be the degree of nitration of cotton which is used either for medicinal purposes or surgical purposes, similar to "new skin". Then for the old photographic purposes where they used it in place of what was later substituted in the form of a gelatin solution.

Q. Is it some form of nitro-cellulose?

A. It is a nitro-cellulose.

Q. Do they usually have a solvent when they speak of it as collodion?

A. Collodion itself is generally accepted, I think, as a solution. But collodion wool is the nitrated

(Testimony of Henry C. Roller—direct.)

cotton from which collodion is made up. Collodion is an ether-alcohol mixture. [201]

Q. Then what would be understood in the nature of this composition described in this publication when he states that the plastic would be “A collodion preparation made with very fine wood meal?”

A. The inference would be that he had simply taken nitro-cellulose and made a plastic or putty out of it and filled it up with wood flour or wood fibre, or wood meal, they call it, which I presume is about the same as wood flour, possibly a little bit coarser material than wood flour might be.

Q. Are the solvents generally used in making collodion volatile?

A. Yes.

Q. What sort of a solvent do they use?

A. Ether and alcohol had been the accepted solvent generally up to that time. I don't know what they use now, if they use it.

Q. So that in this article you have a disclosure of a plastic wood that is made from nitro-cellulose and some kind of a volatile solvent and a finely-divided cellulose filler?

A. Yes.

Q. I will ask you to refer to the Thompson patent and explain to the Court what is disclosed in that patent that has a bearing on the Griffiths composition.

A. Well, Mr. Thompson says that he uses “Dissolved or softened celluloid, which is a plastic ma-

(Testimony of Henry C. Roller—direct.)

terial obtained by means of gun-cotton and camphor, whatever may be its name, its preparation, its mode of fabrication, its condition, or its composition, forms the basis and constitutes the integral and essential elements. It is previously dissolved or sufficiently softened as hereinbefore stated in order that one or more of the substances hereinbefore mentioned may be added.”

And then he says the “Mixture is usually made whilst [202] cold by simple agitation.

“This improved paste-gum or coating to which the inventors have given the name of ‘Calfatine’ is usually of a brown color, but it may be made white or of other suitable colors as desired,—”

Mr. Dike: What part of the patent are you reading from?

A. I am reading from line 30 and downward.

“It is usually of a brown color, but it may be made white or other suitable colors as desired, such as blonde or wood-color, etc.”

He details in his solvent where he uses acetic acid, acetone, alcohol and essential oils for the liquid portion of that mixture. His nitro-cellulose is celluloid.

Q. He has his nitro-cellulose in the celluloid?

A. Yes.

Q. That is where he gets it?

A. Yes. Incidentally, in all celluloid there is, as I believe I said, a considerable portion of camphor, which contributes largely to any solution process.

Q. And he uses as a solvent for his celluloid,—does he use acetone?

(Testimony of Henry C. Roller—direct.)

A. I will have to take the time to look and see.

Q. I direct your attention to line 20, I think it is, of the complete specifications.

A. Yes, in line 18 it says: "This invention has for its object the manufacture of a water-resisting and impermeable paste-gum or coating which is obtained by means of celluloid dissolved or simply softened by one or more suitable solvents such as acetone, acetic acid, ether, alcohol, or the like, pure or mixed."

Q. Now, what sort of fillers does Thompson contemplate using in his solution of celluloid dissolved or softened by [203] acetone, acetic acid, ether, alcohol, or other solvent?

A. "Resins, oils, gums, waxes or the like, vegetable refuse or even tale, chloride of magnesium, mineral or organic salt, vegetable, mineral or animal powders."

Q. Now the vegetable powder that he uses would be largely cellulose, would it?

A. Yes.

Q. When he makes up his composition does he have a composition in the form of the paste containing nitro-cellulose in a volatile solvent and a finely-divided cellulose filler which will harden on mere exposure to air to substantially the solidity and rigidity of wood?

A. Yes, he would.

Q. And suppose he uses this other filler tale, chloride of magnesium or mineral or organic salts. How would that composition appear?

(Testimony of Henry C. Roller—direct.)

A. Those compositions would take on the character of whatever filler he used.

Q. What is the consistency of the composition which Mr. Thompson proposes to make? Does he give you any indication as to that?

A. Well, with the celluloid I would say that he would have something that was fairly stiff; in other words, a paste rather than a fluid.

Q. And does he give you any instructions as to what he is going to use this composition for?

A. He speaks of it as a coating.

Q. I direct your attention to line 25.

A. "This paste is intended either for sticking articles together, such as wood, cardboard, cord, fabrics, cork, leather or the like, or for covering them over the whole or part of their surface with an impermeable layer which protects them entirely from [204] contact with and from the action of water, whether fresh water, salt water, household water, or the like."

Q. I notice down here in line 44 he also mentions this material can be used "for repairing articles that are broken, or deteriorated by water, such as old furniture, vehicles, wagon covers and the like." How would this material be used in repairing old furniture?

A. Well, I should take it from the description that he uses it more as a cement than as a filler. He does not say here that this material fills, but here is the one to which he has added some filler.

(Testimony of Henry C. Roller—direct.)

Q. I direct your attention to the Oblasser patent. Have you read that patent?

A. Yes.

Q. What kind of a composition does Oblasser propose to make?

A. Well, he wants to make a nitro-cellulose mixture with a suitable solid material, again using sawdust or cork as a filler.

Q. I notice that he describes taking cellulose and treating it with nitric or sulphuric acid. Would a treatment of cellulose with nitric acid produce a cellulose?

A. I believe that is a misprint, because sulphuric acid if used alone instead of a mixed acid is not practical. If you use either one of the two acids by themselves you get an entirely different and unsuitable product which you cannot use for any commercial purpose.

Q. That is this should read "nitric and sulphuric" instead of "nitric or sulphuric?"

A. I should say so, yes.

Q. How do you deduce that?

A. Only experience tells you that if you attempt to put some cotton into straight sulphuric acid, unless you work [205] under most careful laboratory conditions, why, you are not going to get anything which has any use.

Q. Suppose you take pure cellulose and place it in pure nitric acid, concentrated nitric acid, would you get a nitrate at all?

(Testimony of Henry C. Roller—direct.)

A. You would get a nitrate, but it has no commercial use that I know of.

Q. I notice from Oblasser that he is proposing to add some camphor to his cellulose after it has been treated by the acid. What would that produce?

A. That would produce celluloid.

Q. If you treat a cellulose with just pure sulphuric acid and then add camphor, would you ever get a celluloid?

A. No, you would not.

Q. Now, after having made this composition of cellulose, attacked by acid, or converted by acid, and adding the camphor, what did Mr. Oblasser then do with this material? Did he dissolve it in anything?

A. He speaks of dissolving it in ether or by acetic or pyroligenous acid or by acetone or by any other suitable solvent.

Q. And when that is dissolved how does that compare with Griffiths celluloid scrap dissolved in industrial spirits, benzol or acetone?

A. Well, if you used enough camphor it would be the same thing—substantially the same thing.

Q. After he has made up his solution, does Mr. Oblasser use any filter?

A. Yes, he does. He speaks again of using what all the rest of them speak of, glass or sand or sawdust or cork, etc. He has one that some of them do not, and that is starch. Any one of those things you

(Testimony of Henry C. Roller—direct.)

asked for for could be used for a filler, if it did not dissolve in the compound. [206].

Q. If you used cork waste or sawdust?

A. That would be a cellulose filler according to the Oblasser claim.

Q. Do you find any suggestion in the Oblasser patent of using any gums?

A. I don't see any.

Q. How about this resin that he mentions here in the bottom line on page 2, is that a gum?

A. Yes, it mentions resins. I missed it.

Q. What would be the effect of a resin in his composition?

A. Why, depending upon the percentage that he used, the character of the resins he used.

Q. Wood imparted to the rest of his composition, would that make the composition adhesive?

A. Depends upon what resin he used.

Q. Suppose it was ordinary resin?

A. Probably make it tackier, yes.

Q. I will ask you to refer to the Black patent. State how this composition is made up.

A. Well, Black again says: "A suitable nitro-cellulose, such as celluloid or its equivalent, a solvent such as acetone, a suitable hard gum such as gum amber or its equivalent, and a hard, non-absorbent, insoluble and powdered substance such as silica." But he is after something different and does not want the softer wood flour or cork as a filler, and

(Testimony of Henry C. Roller—direct.)

he uses a hard powdered glass or silica for his filler.

Incidentally, this particular man wanted to use this for a dental filling, where anything of a woody nature would not be of service.

The Court: Is there very little cellulose in cork?

A. I really do not know what the percentage is, but from [207] its nature I would say that the percentage is high. I wouldn't say whether it was 50 or 60 percent or higher than that, 80 percent.

Mr. Miller: Q. How would the cellulose percentage in cork compare with the percentage in wood, ordinary wood like pine?

A. I would imagine that there is more cellulose in pine than there is in cork because cork is of a gummier nature. It is a pure guess, without looking it up. The percentage of gums in cork is higher than it is in pine.

Q. Would there be very much difference in the two?

A. I really do not know, but I should not think—there might be as much as five or ten percent, yes.

Q. But, roughly, about the same, within five or ten percent?

A. Well, if you want—I should not like to make a positive statement because as a matter of fact I do not know.

Q. Coming back to this Black patent, what was the purpose of adding his gum amber in his composition of nitro-cellulose, solvent and filler?

(Testimony of Henry C. Roller—direct.)

A. I assumed there that he wants that again for a toughener for his pyroxyline paste, something which would stay in, if he added camphor, the camphor would probably not stay in if used for a tooth filling.

Q. What does he mean over here in lines 107 to 110 that "Gum amber serves the purpose of a binder to hold the particles of the mass together and also gives the mass the quality of adhesiveness, causing it to adhere to the walls of the cavity?"

A. Well, I don't believe that I know just how gum amber would help, when it comes to sticking to a surface like the wall of a tooth.

Q. Would it have any effect in increasing the adhesiveness at all? [208]

A. It might easily enough, but I do not know.

Q. Then, as a binder, what do you understand by that? What is the function of a binder?

A. I would take it in this instance the binder is the nitro-cellulose plastic which forms the binder for the particles of silica.

Q. Now, referring to the Eckstein patent, how does that composition compare with what is disclosed in Griffiths?

A. That again is substantially the same.

Q. What difference is there between Griffiths and Eckstein?

A. They are substantially the same. He speaks of gun-cotton instead of celluloid scrap, as one difference, but he uses oil, castor oil, resin, gum and

(Testimony of Henry C. Roller—direct.)

pigment, and he also adds another item which may or may not be—it would not have any effect on a plastic compound, by the way—magnesium chloride, which again is a mineral filler.

Q. He makes up a composition here, collodion wool, which is nitro-cellulose?

A. That is nitro-cellulose, they are all nitro-cellulose.

Q. And alcohol or acetic ether, which serves what purpose?

A. As a solvent.

Q. And also castor oil serves what purpose?

A. A softening agent, again.

Q. The same as in Griffiths?

A. Exactly.

Q. And also a small percentage of resin or Canada balsam, what is the purpose of that?

A. The same purpose that Griffiths would use it for.

Q. Does that perform the same functions as Griffiths' ester gum? [209]

A. Yes, the ester gums were not getting known until much later than—oh, 1914 or 1915.

Q. Now, Eckstein does not propose to use a wood filler, does he, or cellulose filler?

A. Well, because he wants a material as a substitute for glass.

Q. I notice here at the top of the second column on page 2 that he suggests the use of zinc white or heavy spar. What would the introduction of these

(Testimony of Henry C. Roller—direct.)

materials into his composition of collodion wool solvent, castor oil and resin do?

A. Well, that would make them into a white material which he could use for such purposes as he gives, for making collars and cuffs or shirts of white material.

Q. Now, this zinc white and the heavy spar, would they be regarded as fillers in that connection?

A. Yes, undoubtedly.

Q. I ask you to refer to the Merrick patent. What kind of a composition does Merrick propose to make up?

A. Merrick again has—in using nitro-cellulose and divided wood, leather, paper pulp, for filler, he is ringing the changes on the filler and still maintaining the plastic with plastic pyroxylines.

Q. Does he have any nitro-cellulose present?

A. Yes.

Q. Does he have a solvent present?

A. Yes, he has a solvent and in that solvent he supplies—got to have a solvent or it won't work.

Q. Does he have a filler?

A. Yes, he has a filler. He has a divided wood or ground-up leather or paper pulp.

Q. Is there a mention of a mineral filler there?

A. Yes, he speaks of asbestos, if I remember, or other [210] fibrous material, and asbestos, of course, is a mineral.

Q. That would not be a cellulose filler?

A. No.

(Testimony of Henry C. Roller—direct.)

Q. How about powdered cork?

A. That is, again, a cellulose filler.

Q. Referring to the advertising matter that is in circulation by the plaintiff here where they state that the wood base putty containing nitro-cellulose, solvent and wood flour or their equivalents is an infringement of the Griffiths patent, do you find in the prior art, the prior arts that you have discussed, nitro-cellulose, solvent and wood flour or their equivalents in combination, together?

A. Yes.

Q. In all of them?

A. Substantially all of these patents which you have mentioned.

Q. That is true of Pierson's moulding composition?

A. Yes, that is true of Pierson's moulding composition; and it is true of Oblasser and it is true of Eckstein's and it is true, as I say, of all these others that you have mentioned.

Q. Eckstein does not have a wood flour, does he?

A. No, but he has a filler.

Q. Pierson and Merrick—Pierson, Merrick, and I think—how about the Parks patent?

A. I want to make sure that Parks is one of those. Parks does, Oblasser does.

Q. Do you know whether Griffith was the first to make up an artificial or a synthetic wood from wood powder or sawdust and a suitable binder?

(Testimony of Henry C. Roller—direct.)

A. Why, I should say no, from the date of his patent as given here. [211]

Q. He applied for his patent in 1923?

A. Prior to 1923, back in 1904, 1905, and 1906, why, we knew of these mixtures around the shop and then, more than that, the evidence of these other patents, which are dated back in 1867, are substantially the same thing.

Q. Do you know of any book that refers to the making up of artificial or synthetic wood compounds of sawdust and a binder, that was published prior to 1923?

A. Yes, there is a book by Hubbard published in 1920 in which he mentions the use, on page 8, in which he mentions the use of sawdust in combination with a binding and cementing material, such as glue, albumen, etc., and then on page 178 he says more specifically, "In the manufacture of a plastic composition" which can be made employing "sawdust or shavings mixed with a solution of nitro-cellulose."

(The plaintiff offered in evidence pages 8, 10, and 178 of Hubbard's "Utilization of Wood Waste" which were received as defendant's Exhibit A-30. These are reproduced in the Bk. of Exhibits.)

Q. Would you say that the Griffiths patent differs from these prior artificial or synthetic woods described in Hubbard might be because of the fact that he uses a different form of binder for wood powder or sawdust?

A. No, I would not.

(Testimony of Henry C. Roller—direct.)

Q. In what other respect does the Griffiths patent differ from these prior artificial woods?

A. In the main, it does not differ at all; the same thing. He uses scrap celluloid or pyroxyline; he uses a more convenient form of nitro-cellulose than these earlier people did who did not have the benefit of celluloid because it was not made then.

Q. And you would say that the difference between [212] Griffiths and these prior synthetic woods described in Hubbard resides in the binder?

A. If by "the binder" you are meaning the nitro-cellulose, yes.

Q. And these prior synthetic woods used what other binder?

A. They used about the same thing. Merely celluloid is a more convenient and probably a cheaper source of supply.

The Court: Is that because it has been put through the process once?

A. That helps a great deal, to be particular, perhaps; but in 1867 and the early days, for example, celluloid was not made commercially and consequently there wasn't enough cheap scrap as a source of supply. It happens to be true that by reworking the stuff you get a materially stronger composition, and old stuff is always used if it is possible. The repeated *repeated* reworkings seem to help the reaction or the combination or whatever they may be.

Mr. Miller: Q. Is starch or flour a possible filler to use in place of wood flour in the Griffiths composition?

(Testimony of Henry C. Roller—direct.)

A. It is a possible filler.

Q. Is starch soluble in water?

A. Not unless you boil it, as far as I know.

Q. Is it soluble in cold water?

A. In cold water, no.

Q. And so with the fact—suppose you had a composition made up after Griffiths, but instead of using wood flour you used ordinary starch or wheat flour, if that composition was hardened and subjected to water would the starch be dissolved out of that?

A. I don't believe that it would.

Q. And why not? [213]

A. Because in mixing your soluble cellulose you have covered each one of these particles with a microscopic film of nitro-cellulose. You have each particle of the material protected with a layer of water-proof material.

Q. Referring to this English patent, Parks, No. 1614, are these fillers that he proposes to use in his mixture of nitro-cellulose and solvent, namely starch, arrowroot,—are the fillers he proposes to use, namely starch, arrowroot and ground-up bleached cotton fibre,—are those cellulose fillers?

A. Ground-up cotton fibre is, but starch is not.

Q. How about the arrowroot?

A. Neither is arrowroot.

Q. Have you personally, prior to 1917, when you left the Celluloid Company, had occasion to make up any compositions of nitro-cellulose, solvent, and a finely-divided cellulose filler?

(Testimony of Henry C. Roller—direct.)

A. Yes, many times.

Q. I wish you would explain to the Court in detail how you made those up?

A. Well, if you make a mistake, in doing some carpenter work, say, quite frequently instead of using wood, use our celluloid to make up or form an article, if one made a "bull" through clumsiness and left a gap, in the wood-working vernacular, the carpenter will take his sawdust and his glue, or anything that comes handy, and fill up that so-called "Dutehman." But in the Celluloid factory it was quite common in the carpenter shop to take some of the old celluloid "dope" and use that as a binder and put sawdust in it and patch up a gap. And I have seen it happen in our pattern-making shop where a casting pattern would be defective through a nick, they would run across to the film department, get some of the film "dope" and sawdust, and build up their own patterns with it [214] to save time in making an entirely new pattern.

In other words, it is the workman's means of correcting some error or some carelessness.

Q. What do these compositions that were made up contain, as compared with this Griffiths patent?

A. They contain nitro-cellulose in solution, a volatile solvent and a filler. The filler could be a cellulose or wood, sawdust, filler or it might have the celluloid itself, which is a filler you could class, I suppose, either as inert or if you left it in long enough it would combine with the dope to soften,

(Testimony of Henry C. Roller—direct.)

but it is never left long enough for that.

Q. What is the consistency of the composition that was made up?

A. It is usually made as stiff or putty-like as possible because the more putty-like and stiff it is the more solids you would have and the less solvent you would have to drive off by evaporation. Consequently, there would be less tendency to have shrinkage.

Q. And when the composition was dried, how was that done? Was that done by the application of heat?

A. No, just let it stand in the air.

The Court: You stated in explanation of how it prevented shrinkage. Just give that.

A. Where you take—the more insoluble materials there were in the composition, the less would be the shrinkage. Consequently you would mix up your dough-like material with the minimum amount of solvent in, and if there is only a little bit of solvent to drive off your residual mass must be greater in quantity and consequently there will be less shrinkage for the ultimate result. Does that answer your question, sir?

The Court: Yes. [215]

Mr. Miller: Q. When the composition dries, what is celluloid, that material that you have described here as having been made by the Celluloid Company?

(Testimony of Henry C. Roller—direct.)

A. If you add wood sawdust filler the thing is hard and tough as wood; but if you add the celluloid scrap as a filler it takes about all the characteristics of the celluloid itself.

Q. Do you know the nature of cellulose plane wing dope that was manufactured and used in this country during the World War?

A. Yes.

Q. What kind of material did they use in that?

A. These were nitro-celluloses dissolved in suitable solvents, with suitable softening agents or what was used in the later day term plasticizers, a toughening agent to stand the vibration, and they were reduced to the consistency where they could be applied with a brush, painted on the cloth.

Q. Were the solvents volatile?

A. Yes, they were all volatile because they had to be air dried.

Q. Now, in the file history of the Griffiths patent at the bottom of page 10 it is stated that, "Cellulose acetate is normally regarded as the chemical equivalent of nitro-cellulose where the explosive or inflammable properties are lighter or not involved," is that true?

A. I should say it was, yes.

Q. Suppose that we had in the Griffiths composition, instead of nitro-cellulose, cellulose acetate, would that composition work about the same way?

A. I am not familiar enough with the cellulose acetates as they have been developed in later years.

(Testimony of Henry C. Roller—direct.)

In the earlier days at the time that I had knowledge of them they were not only [216] expensive, but they were unreliable and they were not considered a satisfactory substitute for nitro-cellulose. And in connection with my impression there that they are unsatisfactory, such a large concern as the Eastman Kodak Company does not altogether approve of substituting the acetates for the nitrates in the manufacture of their film base.

I believe that is so. Whether it is an accurate statement or not I am not prepared to say; but up to 1914, 1915, and 1916, why, the acetate was not a desirable form. It could be used, yes.

Q. On page 28 of the file history in Mr. Griffiths' affidavit, he makes a statement: "But cellulose acetate can be used for making plastic wood very similar to that produced by cellulose nitrate."

Do you agree to that statement?

A. I think it would be possible, but whether it would be commercial, would be something I do not know.

Q. On page 29 of the same file history Mr. Griffiths in his affidavit states: "In reading a printed specification or other technical paper where reference is made to nitro-cellulose in circumstances in which inflammability or explosiveness are not involved in the results desired, a person skilled in the art, in my opinion, would automatically consider that other cellulose products could be employed in

(Testimony of Henry C. Roller—direct.)

place of the nitro-cellulose, for instance cellulose acetate.”

Do you agree with that statement?

A. Not altogether, but because as I said a moment or two ago, if, in the time that I have also mentioned, one would hesitate a long while toward using the acetate, although they might like to on account of its non-inflammable nature. But the difficulty in handling it was such at those times that it was not a very desirable thing unless you were driven to it. [217]

Q. In the Griffiths composition where he includes castor oil and the gum, do the addition of these ingredients used in his compound of nitrate solvent and wood flour merely bring about the expected and normal functions?

A. Why, surely.

Cross Examination

By Mr. Dike:

Q. You said that certain of the patents, as I understood you, describe substantially the same thing as is shown and described and claimed in the Griffiths patent? That is correct, isn't it?

A. I believe so.

Q. Which of these patents? Will you just give me the list again of the patent which you say are substantially the same as Griffiths'?

A. Well, we will take, for instance, one, the Pierson patent, in which he made—

(Testimony of Henry C. Roller—cross.)

Q. (Interrupting) Just give me the list now; it will save time if you will.

A. I haven't segregated those, Mr. Dike.

Q. I will ask you to just read through them and give me that list.

A. Well, we can take these. Start back with Mr. Parks.

Q. Which one is this?

A. I think I will withdraw the Parks reference because that one does not speak very fully but Mr. Pierson, for example, Merrick, for another, Black, for another,—although he doesn't mention the wood. He mentions the filling material. Oblasser, for another. Those could be extended by a longer list.

Q. I want the entire list, Mr. Roller.

A. Well, here is one by Dietz and Wayne. I am not [218] permitted to ask whether this "being substantially" must include the wood filler, Mr. Dike? Or is it permissible?

Q. I asked you whether they describe substantially the same thing as Griffiths? That is what you stated?

A. Yes.

Q. Now, I want you to state which of these patents you say describes substantially the same thing as Griffiths.

A. I see. In my belief the substitution of an inert, of the order of sand, to take the place of wood flour, is pertinent as being substantially the same because any one working with things of that sort,

(Testimony of Henry C. Roller—cross.)

wanting a specific result, would naturally incline to putting into the material something similar. To that extent, I would say they are substantially the same, in which case they would include Black, Bussy, Hermit, Merrick, Pierson, who has already been mentioned.

Q. Confine yourself to the one you have testified about, if you please.

Mr. Miller: We might explain, at the very head of this statement there is a mention of a patent from abroad by the name of Bussy?

A. Bussy is one.

Mr. Dike: Q. In that case you have, Bussy is one, Black, Merrick—

A. I think that covers them, out of the eleven.

Q. That completes the list?

A. Yes, it does.

Q. Now did I understand you to say or do you think that an ordinary mechanic skilled in this art in 1923 when this application was filed, the Griffiths application was filed, would have been taught by anyone of these patents, standing alone, how to make the composition which we have referred to conveniently in this case as Plastic Wood, which is a compound [219] described by Griffiths?

A. Yes, most decidedly.

Q. If you had been a mechanic at that time, an ordinary mechanic at that time you would have been able to make up some Griffiths' plastic composition from any of these patents?

(Testimony of Henry C. Roller—cross.)

A. Moreover, I have actually made it. Now, in the case of a carpenter, who might be termed as a mechanic, I presume—

Q. (Interrupting) No, I am asking you whether he would have known how to do it if there had been put in his hand at that time any one of these patents?

A. I believe he would have, yes, a man of normal intelligence.

Q. And he would have required no other information except such as he would have in his ordinary skill in his trade?

A. I don't believe he would require any additional information, no sir.

Q. Now, what one of these patents do you say is the best description of the Griffiths composition, of Plastic Wood?

A. I think the Pierson patent is the best one.

Q. You think the Pierson patent is the best?

A. Yes.

Mr. Dike: Q. Have you ever made up any of the formulae of the Pierson patent and mixtures?

A. I will qualify that to this extent: Yes, I have weighed out the ingredients and another party did the actual mixing of them.

Q. You have seen it done, then?

A. Yes.

Q. What formula did you make up? [220]

A. That was one of them calling for your plastic, in part.

(Testimony of Henry C. Roller—cross.)

Q. Well, refer to the page and column.

A. On page—the second full paragraph in the first column of page 3 where he asks for—

Q. (Interrupting) Beginning “In carbons?”

A. “In carbons,” yes.

Q. You made up that formula?

A. I made up that formula using the charcoal.

Q. Did you make up any other formula?

A. Yes.

Q. Which one did you make up?

A. Also using a formula for sawdust.

Q. Did you make up any other?

A. I believe that there were sets of three, yes.

Q. What was the third one?

A. Using a different proportion of the filling material but not of the solvent or the pyroxyline.

Q. Were all three made up at the same time?

A. Yes.

Q. Why did you use different proportions of filling material?

A. Simply to show the difference in effect of the various relations between the filler and the mineral and the solvents, and the fluidity of this particular nitro-cellulose that was being used.

Q. Now will you point out exactly what line, and referring to page and lines, or pages and paragraphs of the Pierson patent, contain the description which you say in 1867 would have taught you how to make the mixture of the Griffiths patent in suit?

A. Well, in the first place, assuming that I knew [221] what Plastic Wood is, which is a nitrated

(Testimony of Henry C. Roller—cross.)

cotton, knowing what both alcohol and ether are, I would proceed to make up my mixture as he directs in there: Wetting it with two parts of—

Q. (Interrupting) I don't think you quite understand the question, Mr. Roller. I asked you what particular lines or paragraphs in the Pierson patent would have taught you in 1967 to make the Griffiths composition.

A. Check. On page 1, column 2, starting with the last paragraph. On page 2—

Q. (Interrupting) And going how far? Let's be clear. Will you read the last question?

(Question read as follows: "I don't think you quite understand the question, Mr. Roller. I asked you what particular lines or paragraphs in the Pierson patent would have taught you in 1867 to make the Griffiths composition.")

A. Down to approximately the fifth or sixth line from the bottom of that page.

Q. On page 2?

A. On page 2, the second column—second paragraph, first column.

Q. I am mixed up, Mr. Roller.

The Court: The witness began his answer, evidently, to the preceding question of yours and not continuing in answer to your last question. If you will go back and read it. The inflection would indicate that.

The Court: "Going how far," I fear you didn't answer that.

(Testimony of Henry C. Roller—cross.)

Mr. Dike: I am still in doubt as to how far he went on page 1.

A. On page 1 up to the fourth or fifth line from the bottom of that second column, on page 1. And then skipping to [222] the——perhaps starting on page 2, first column, the first full paragraph.

Q. And going how far?

A. Going down to the second line from the bottom of that paragraph.

Q. The second line from the bottom of the second paragraph?

A. The second paragraph.

The Court: Paragraph or column?

A. Sir?

The Court: Paragraph or column?

A. The second line from the bottom of the first paragraph, and then on page 2, the second column and beginning with the third full paragraph.

Q. That is variety No. 3?

A. Variety No. 3.

Q. Yes, going how far?

A. Down to the point where it says, "Greater flexibility is required. Some drying oil may be added to the plastic mixture," and continuing on until it says, "The mixture to be applied to the cloth as above."

Q. Just a minute. Do you include—let me come around and mark your patent up. Then we will save time.

A. Just broadly speaking, where he merely says what he puts into the thing.

(Testimony of Henry C. Roller—cross.)

A. Broadly speaking, these paragraphs would be read and interpreted up to the point where they finish describing the purpose, and stopping where they indicate what the application of these particular mixtures might be.

Q. That is variety 3, you go down to the sentence beginning, "Another plan is to treat the cloth"—

A. Exactly. [223]

Q. And the next?

A. In variety 4, that entire paragraph. The next paragraph where he indicates the purpose and the different sorts of filling, in speaking of iron powder, steel filings, etc., continuing through that paragraph and up to here, which is the end of that paragraph.

Q. You mean to there?

A. No, beyond. He speaks of "oxide of lead," which could be used and says "Iron, stone, plaster, etc."

Q. To make clear, you include, then, the first paragraph, not a full paragraph, on page 1?

A. The balance of the paragraph.

Q. Yes, which is the balance of a paragraph beginning on page 2. That is right, isn't it?

A. Yes. Then the entire second paragraph.

Q. Which is the first full paragraph on page 3?

A. The second.

Q. The second full paragraph on page 3?

A. Yes.

Q. And that is all?

A. That should give everybody more than enough information to go ahead and make it.

(Testimony of Henry C. Roller—cross.)

Q. Now, referring to the second full paragraph on page 3, which I understand to be the basis of the three mixtures which you say you saw made, what are the low limits—

A. (Interrupting) That is the—

Q. Just a minute. What are the low limits of the amount of charcoal powder?

A. One part of charcoal.

Q. And the high limit?

A. Four.

Q. Four? [224]

A. I believe so. That is what we made up. I know that is what was made up.

Q. Read the third line.

A. Of the first paragraph?

Q. Second paragraph. Didn't you say that you made up—

A. (Interrupting) Lamp black,—“Charcoal,” in other words, “1 to 16.” Four was the limit which we made up.

Q. But sixteen was the high limit given?

A. Yes, is the limit mentioned there.

Q. In the first mixture you used one part of charcoal?

A. Yes.

Q. And in the second mixture you used two parts of charcoal?

A. Yes, in the second mixture I used two parts of charcoal.

Q. And in the third mixture you used four parts of charcoal?

(Testimony of Henry C. Roller—cross.)

A. Yes, the idea being there to get into the limits of not less than sixteen parts.

The Court: Not less?

A. Yes, one would have been less and two would have given us 18%, and the four would have given about 25%.

The Court: I don't understand that.

A. Well, sir, if you have a mixture of one of the solids, four of—one kind of liquid and four of another liquid and one of filler you have a total of ten. If one of these parts in that ten is that charcoal in question, you would of course have 10% charcoal in the mixture, would you not? If, however, you change that percentage of charcoal to two parts, viz., one to four, you have—let's see— eleven, which figures out closer to 18%. If you increase that charcoal to three parts you have 1, 4, 4 and 3, which makes you four parts in twelve or twenty-five percent. [225]

The Court: You said four in twelve?

A. Maybe it is my stupidity. It is one to thirteen.

Mr. Miller: Q. I think it will save time if you will give the exact proportions first of the first mixture you made up.

A. That was: one of nitro-cellulose; four of ether; four of alcohol; and one of charcoal.

Q. Now give the second one.

A. One of nitro-cellulose; 4 of alcohol; 4 of ether; 2 of charcoal. And the third, 1 of nitro-cellulose; 4 of ether; 4 of alcohol; and 4 of charcoal.

(Testimony of Henry C. Roller—cross.)

Q. And what was your first mixture like when you got it done?

A. I did not stay at the plant long enough to see what the mixture looked like when it had been allowed to set for a few hours. I did, however, see it as it was mixed up and it was quite fluid.

Q. About between a solid and a liquid?

A. Yes.

Q. What was the second one like?

A. Almost the same but a little bit thicker; and the fourth was correspondingly thicker.

Q. How thick was the third one? Was that—

A. I didn't see the material.

Q. Did you see it mixed?

A. I saw it mixed up in the mixture. It was thick, but this material readily—

Q. (Interrupting) How thick? Give some comparison.

A. Well, like very soggy gingerbread when you squeeze it very thin, and not much of it, about as near a comparison as I can think of,—when it was finished, I mean.

Q. What was the form of the charcoal which was used? [226]

A. It was pulverized charcoal, the mesh of which I do not know. I should judge it was the order of possibly one hundred or one hundred fifty mesh; that is the charcoal would have passed freely through a wire mesh, 150 to the inch.

Q. About like flour?

(Testimony of Henry C. Roller—cross.)

A. Coarser than flour a trifle. Are you speaking of wheat flour and not corn flour?

Q. Wheat flour.

A. Yes, it was coarse flour, probably coarser than corn flour.

Q. Why did you decide to put in, in the second mixture, two parts of charcoal?

A. The reason for that was in making up an entire schedule of a great number of materials, and in order to determine what they appeared like, it was saving time to get in between. In the instance that you mention, putting in sixteen parts of ground charcoal with four of ether and four of alcohol and one of nitro-cellulose, experience would dictate that that would be something which was not workable; and my desire was to keep within the limitations of the specifications and get enough of a range to show whether this thing in that particular form might have been of any use.

Q. Then you do not find anything in the patent which told you how many parts to use to get a particular result?

A. You can take anything which your presumed experience would dictate would give you a suitable result.

Q. Isn't it true before you began to make up these things you were thoroughly familiar with the Griffiths patent?

A. No, I was not familiar with the Griffiths patent.

(Testimony of Henry C. Roller—cross.)

Q. Had you read it?

A. Perfunctorily, yes.

Q. But you were familiar with Duratite Wood Dough, [227] were you not?

A. I was familiar with it only in having seen it, but knew nothing detailed of its components, and still know nothing of its manufacture,—nothing either of its composition or proportions.

Q. (Interrupting) And you were also familiar, were you not, with Plastic Wood?

A. You mean the Boyle product?

Q. Yes, sir.

A. No, sir; I have no familiarity with that.

Q. You haven't seen it?

A. Oh, I might have seen it, but not to recognize it as being such.

Q. You chose your amounts and proportions in making these mixtures, did you not, with the intention of getting something which would be a plastic material?

A. Yes. It formed one of a series of tests so that you could have a series of comparisons when they were finished, that you would have an entire picture of the subject of mixtures of a nitro-cellulose, volatile solvent and fillers.

Q. What was the character of the nitro-cellulose you used?

A. Used two kinds. We used both the nitro-cellulose which had been recovered from celluloid and the nitrated compound which is bought in the

(Testimony of Henry C. Roller—cross.)

market and known as a 15-20 second cotton, and marked as such on the container.

Q. In other words, the cotton used by the lacquer industry?

A. Yes, sir.

Q. In which experiment did you use the one that had been recovered from celluloid?

A. In both. They were checked expressly, the recovered [228] celluloid checking against the nitrated cotton.

Q. Then you made six mixtures instead of three?

A. Of this particular set of the Pierson, yes.

Q. Of that Pierson composition in the second paragraph of the first column of page 3?

A. Yes.

Q. If I understand correctly you say you made, in accordance with the second paragraph of the first column of page 3 of the Pierson patent, a mixture made with one part of charcoal, another made with two parts of charcoal and another made with four parts of charcoal, each of these being made in turn with nitro-cellulose and the celluloid scrap?

A. Correct.

Q. So that made six combinations?

A. Yes.

Q. Did you also use sawdust?

A. We did.

Q. Did you also use sawdust with nitro-cellulose and celluloid scrap?

A. Yes.

(Testimony of Henry C. Roller—cross.)

Q. So that with sawdust you made one combination with nitro-cellulose which had one part only, which had two parts of sawdust, and another which had four parts of sawdust?

A. Correct.

Q. And the same three mixtures were made with scrap celluloid?

A. Not with scrap celluloid, but with pyroxyline which had been recovered from celluloid.

Q. With that correction, my statement is correct, is it?

A. Exactly.

Q. Now, what other mixtures were made, or you had made [229] at the same time?

A. Mixtures which contained small percentages of rosin, small percent of rosin plus oil, small percentage of oil alone without the rosin.

Q. And were any of these made with nitro-cellulose and the other with pyroxyline recovered from celluloid scrap?

A. I am not clear on it, but I think that most of them were. There were only a few which were made with the pyroxyline recovered from the celluloid.

Q. And you also made some of them carbon and some with charcoal and some with sawdust?

A. Yes.

Q. Altogether about how many mixtures were made?

A. I suppose nineteen or twenty or more.

(Testimony of Henry C. Roller—cross.)

Q. You have given me twelve that were made with the nitro-cellulose and pyroxyline scrap. I should think it would run more than 19 or 20.

A. It possibly did because after I had left instructions were left with Mr. Webb to make up some with sand in, and there might have been some other things.

Q. So, altogether, there were quite a large number made?

A. There was what we hoped was a representative range to cover these specifications.

Q. Did you make experiments in connection with the mixtures described in the other patents besides the Pierson patent? Or did you see them made?

A. I believe not. I believe I had nothing to do with making up anything else, although others were made.

Q. Now, you used one part, two parts and four parts, respectively, of charcoal and of sawdust?

A. Yes.

Q. You also have used three parts, five parts, six parts, [230] and so on up to sixteen parts?

A. We could have.

Q. Why didn't you?

A. For the reason experience would have dictated, had you used, let's say sixteen parts of sawdust, you would have had such an unwieldy bulk and such a dry mass that the result would not have approached anything like a putty-like material.

(Testimony of Henry C. Roller—cross.)

Q. In other words, you were trying to produce a putty-like material?

A. Yes.

Q. Who else was present when these experiments were made?

A. Mr. Webb.

Q. Who decided what proportions were to be used?

A. The proportions were taken from Pierson's specification.

Q. But who dictated what proportions were to be taken from these specifications?

A. I don't remember that.

Q. Now, referring to Pierson's patent and to the last paragraph of Paragraph 1, which refers to what I will call variety No. 1 because that is what the patent calls it, and tell me what that mixture is described as having been made for.

A. He evidently uses that mixture to be applied as a paint or a darb to cotton batting.

Q. In other words, a coating for cloth?

A. Yes, some fabrics.

Q. And then from this cloth you understand that they made up various articles like statuary and architectural moulding and furniture and vessels and tubes? Is that correct?

A. Yes, as he describes it here.

Q. So the application as described there is simply a coating for cloth? [231]

A. As a coating or form of paste.

(Testimony of Henry C. Roller—cross.)

Q. And that does not describe any filler, does it, in that coating?

A. No.

Q. I notice that it says that the solvent will not completely dissolve the plastic. That is different, isn't it, from the Griffiths composition where the solvent does completely dissolve the nitro-cellulose?

A. It is a question of whether that solvent would or would not dissolve the plastic. You have got a pure plastic so you can spread it better.

Q. But the patent says it does not dissolve it completely, doesn't it, the Pierson patent? Look at the middle of that paragraph.

A. The words "Plastic" and "Cellulose" there, as they are used—

The Court: You don't want me to understand cellulose is a plastic? I don't so understand.

A. No, sir. Cellulose is an insoluble material which, after it has been treated with acids, becomes a material which becomes a plastic or soluble by the treatment with a solvent.

The Court: You go back and read what was said before the Court interrupted. Perhaps some explanation then would enlighten the Court.

(Question read as follows: "I notice that it says that the solvent will not completely dissolve the plastic. That is different, isn't it, from the Griffiths composition where the solvent does completely dissolve the nitro-cellulose?")

The Court: Is there any explanation to help the Court? It seems like plastic and nitro-cellulose were

(Testimony of Henry C. Roller—cross.)

being used as pretty nearly the same thing; it sounds like it.

Mr. Dike: I will ask the witness to explain where [232] Pierson uses the word "Plastic" in his patent, if there is a peculiar use of the word.

A. There may be in the first instance which you have just referred to. He speaks of it as a plastic cotton, and by wetting a plastic cotton or what might reasonably be assumed as a collodion cotton, as the material of those days—in other words, nitrated cotton which becomes soluble in a mixture of ether and alcohol. It is true that he says two parts of alcohol and two parts of ether to one part of his cotton and his wetting mixture or solvent, as against four parts of alcohol and four parts of ether later on.

Mr. Dike: Q. Isn't it true, Mr. Roller, that throughout this patent Pierson uses the word "plastic" where he refers to the plastic, for instance at the beginning of variety No. 3 and variety No. 4—I mean nitro-cellulose where—or his composition as nitrated cotton which has been wetted or mixed with a solvent. Isn't that what he refers to by plastic?

A. But presumably with enough solvent to make the thing fluid or plastic so that you can spread it.

Q. Isn't it also true that he further describes in his patent the manufacture of what he later on calls plastic and then gives a series of formulae for the use of this plastic?

(Testimony of Henry C. Roller—cross.)

A. It is true he changes the proportions of solvent he uses and thereby—

Q. (Interrupting) Can't you answer that question yes or no?

A. Yes. I guess the answer would be yes to that.

Q. I call your attention also to make sure, to the last line or line and a half of the second paragraph on page 1, which reads: "And vegetable matter so changed is what I denominate 'plastic'."

A. Yes, that is true. [233]

Q. Perhaps I was wrong in suggesting that it contained solvent. The definition given there does not contain solvent, does it, but simply refers to the nitrated cotton?

A. Yes. In other words, cotton made so it could be turned into a plastic by a solvent.

Q. Now, referring to variety No. 2 beginning on the second page, column 1, middle of the column. This also is intended as a covering for fabrics, is it not?

A. Apparently, yes, sir.

Q. And a fabric certainly has nothing to do with anything described in the Griffiths patent, does it?

A. No, that has nothing to do with fabrics.

Q. Now, variety No. 3, page 2, beginning the third paragraph in column 2, that also is a water-proofing material for fabrics?

A. Yes.

Q. Nothing else, is it?

A. That is what he says here.

Q. All right. Now I am going to ask you to refer to variety No. 4, and mark the paragraph that be-

(Testimony of Henry C. Roller—cross.)
gins: "In metals" (a); that is the bottom paragraph on page 2. The next paragraph which begins on page 3, beginning: "In silicious and agrillaceous compounds," mark that (b); and the one that begins, "In carbons, etc." mark that (c). Now I will refer to these three paragraphs as varieties 4a, 4b and 4c, and then we won't get mixed up as to what we are talking about. Now, take 4b, the variety 4b, that is a stony material, isn't it?

A. Yes, where he says, "Quartz or glass," it would be hard.

Q. And it also is useful as a paint or a coat for protecting roofing. That is true, isn't it?

A. I personally would not want to paint a roof with anything like that. [234]

Q. Now refer to 4c. That is the one that you say you saw the specimen made up of?

A. Yes.

Q. Is there any indication in that paragraph that the material is to be a doughy or putty-like composition?

A. Not as indicated by the paragraph, but anyone making up a mixture of that sort or having to do with things of that sort would realize it must be from the nature of the proportion of solvent and pyroxyline and filler.

Q. Are you sure you are right in that statement?

A. If you exceed the limit of fifteen or eighteen percent and if you use a sawdust, it is bound to be doughy.

Q. Well, suppose you take the formula given there with the low limit for the filler; that would be

(Testimony of Henry C. Roller—cross.)

one part plastic; alcohol 4; ether, 4; charcoal powder, 1 part, or sawdust powder one part. That would be a liquid, wouldn't it?

A. It would be a pretty heavy liquid.

Q. You said before, doctor, it would be a soupy liquid.

A. I don't think it would be as thin as soup. I think it would be near the order or honey.

Q. And if you took sixteen parts of filler, would the material stick together?

A. It might if you used considerable pressure.

Q. But not without pressure?

A. It would require pretty heavy pressure, I believe almost more than you could apply by squeezing it in your hands.

Q. That being the case, there isn't any instructions in this paragraph which suggest the use of a combination of proportions which would produce a putty-like material, is there?

A. He doesn't give you any proportions for getting a putty-like mass, no. [235]

Q. And you had to choose such proportions as would give you a putty-like material?

A. Why, surely, for a fairly—

Q. (Interrupting) That is sufficient. Where do you find anything in there that says the material will harden to a wood-like consistency, in that paragraph?

A. There is nothing in that paragraph to indicate that, other than common knowledge. That solvent—

(Testimony of Henry C. Roller—cross.)

Q. (Interrupting) No, I am asking you about the paragraph. I am not asking you to apply your knowledge at this time. There is nothing there, is there?

A. There is nothing given in that paragraph, no.

Q. Referring now to variety 4a, that was intended for paints or preservatives, coatings, wasn't it?

A. So he says, yes.

Q. Do you think it would make a good one?

A. I wouldn't care to use it.

Q. Now, referring to the engineering publication. Do you find any proportions for a mixture given in that?

A. Is it permissible to amplify my answer to that last question as to whether I would care to use it as a protective coating?

Q. Yes, go ahead.

A. Where he specifies for use either in—subject to the action of light, of course not. There might be instances where it would serve a purpose.

Q. All right, now refer to "Engineering."

A. I have it.

Q. Do you find any proportions for a mixer given there?

A. No.

Q. Now, referring to the Thompson or Bussy patent. This patent describes an adhesive, doesn't it? [236]

A. Paste, glue or coating, yes.

(Testimony of Henry C. Roller—cross.)

Q. That is, it is something to stick other things together with?

A. Well, you might be able to use it for that, yes.

Q. Isn't that what it was intended for? Read the second paragraph, beginning line 14. Wait a minute. Beginning line 25 of the complete specification.

A. "This paste is intended either for sticking articles together, such as wood, cardboard, cord, fabrics, cork, leather or the like, or for covering them over the whole or part of their surface with an impermeable layer which protects them entirely from contact with and from the action of water, whether fresh water, salt water, household water, or the like.

Q. It is either an adhesive like glue or the DuPont nitro-cellulose cement with which you are familiar, or a fabric coating?

A. Not necessarily. There are other adhesives which are considered plastic in themselves, under certain conditions.

Q. Look at the formula on page 3, which gives acetic acid one thousand parts, alcohol 400, essential oils 400, and celluloid 200 parts. Wouldn't that be a thin liquid?

A. I am not prepared to say. I haven't made up any of that.

Q. Haven't you had experience enough to know perfectly well that is a thin liquid?

A. I don't believe I have, no.

(Testimony of Henry C. Roller—cross.)

Q. I am very much surprised, Dr. Roller. I thought you have had a great deal of experience. Don't you think that with 800 parts of alcohol and essential oils and only 200 parts of celluloid it would be a thin liquid?

A. What kind of essential oils? What kind of celluloid?

Q. Then you do not find any description in the patent [237] which is sufficient to tell you what kind of essential oils and what kind of celluloid?

A. No, I do not.

Q. Will you now look at the Eckstein patent, 458,157. The material described in that patent is intended as a substitute for glass, isn't it?

A. So he states, yes.

Q. And also that it has the appearance of ivory and may be used for the making of collars, cuffs, shirt fronts and the like?

A. Yes.

Q. Look at the Merrick patent. Does that patent give any proportions for the mixture which it describes?

A. No proportions are given.

Q. What are the characteristics that are necessary for a shoe filler? Explain to the Court first, perhaps, what a shoe filler is, if you know.

A. I am not familiar enough with shoes, incidentally, to know what a shoe filler is.

Q. Now you have testified to having seen certain compositions made up while you were with the Celluloid Company. That was before 1917?

(Testimony of Henry C. Roller—cross.)

A. Yes.

Q. Did you keep any record of the proportions of the ingredients which were used?

A. No, I did not. That was information belonging to the company and consequently I had no right to keep any records.

Q. And you are speaking entirely from memory?

A. I am speaking entirely from memory. [238]

Redirect Examination

By Mr. Miller:

Q. Mr. Roller, I will ask you to refer back to this Pierson patent. Would you consider, from his description that he makes in the second paragraph, column 1, page 1, that he was using the word "plastic" there as synonymous with nitro-cellulose?

A. Yes, because he speaks at the beginning of that paragraph of having treated cotton, hemp, flax, etc., by acids, and therefore converting these celluloses into some form of a soluble cellulose.

Q. Referring to that paragraph on page 3 that has been designated by Mr. Dike as paragraph 4b, of what consistency do you understand that composition to be when it is to be used for making the "Excellent statuary and good stuccos." referred to in the last two lines of that paragraph?

A. In order to mould articles of that shape and form it must necessarily be in the form of some kind of a putty.

Q. Have you seen any suggestion in this paragraph of spreading this material on a fabric, or that

(Testimony of Henry C. Roller—redirect.)

this statuary or stucco is made out of a fabric, or a coating on it?

A. None whatsoever.

Q. Referring to the next paragraph which opposing counsel has designated as paragraph 4c, of what consistency is this composition to be when he is going to use it for making statuary and mouldings as stated in that paragraph in the last few lines?

A. Of the same consistency that he would have used the materials in the preceding paragraph; in other words, a paste.

Q. Would you say a putty?

A. I wouldn't say "paste." I think you have a putty or a moulding clay which is of the consistency of putty. [239]

Q. In this Griffiths patent, the patent in suit, he mentions here that his material is to be used for "filling, coating or moulding" in the first paragraph, lines 4 and 5. Is there anything in this Pierson patent, paragraph 4c, that indicates to you that the composition is to have the same consistency for moulding as the Griffiths composition when it is used for moulding?

A. No. They both speak of them for moulding; and moulding materials all have the same consistency before they can be used as such.

The Court: Just what do you understand by "moulding" there?

A. By "moulding" a material of the consistency which sculptors use to form their statuary, and such

(Testimony of Henry C. Roller—redirect.)

other forms of material they make, that is pliable under the fingers or some light tool instead of by pressure which might be applied by machinery.

Mr. Miller: Q. By a "moulding material" is usually meant one that can be manipulated by hand and take such form as one might wish to have.

The Court: I thought there was some uses to which it was intended to be applied.

A. Oh, these plastics can be used if they are of a moulding consistency, to form articles and toys out of, figures of animals, small pieces of statuary, either manipulating it by hand or moulding it into plaster Paris moulds which have been formed for that purpose, to make large quantities of the same thing,—toys.

Mr. Miller: Q. Do you know whether these compositions which are described in Pierson and Griffiths are suitable for making something to represent carved wood?

A. Yes, any of these plastics, using the ground wood filler of the kind of wood you wish to imitate will take the figuration of any carved moulding and in that way represent an imitation wood, lacking only the grain that a wood would show. [240]

Q. Do I understand that this composition of Pierson, paragraph 4c, is suitable for shaping, or giving it a shape and having it retain that shape?

A. Yes, because he wants it of the consistency that would be suitable for statuary. In other words, that he can mould it into statuary as he sees fit.

(Testimony of Henry C. Roller—redirect.)

Q. In other words, he is to take that composition and shape it and give it the desired shape and then let it dry out and it will be a hard object of that shape that it was given while soft?

A. Yes, it would.

Q. Now, with respect to this Engineering reference, will you get that out?

A. I have it.

Q. At the top of the middle column on this page, he states that this material, made up of collodion and fine wood meal, is to have the consistency of soft putty. Does that give you any idea of the nature of the proportions that are to be used?

A. Why, yes. By "soft putty" I would immediately assume that it was the familiar glazing putty which the painters habitually use for window glass work, a mixture of whiting and linseed oil.

Q. Suppose you had a mass of collodion and a mass of wood filler, how would you make up this composition in accordance with this disclosure which he has given, a putty?

A. Well, knowing that collodion is softened or dissolved by a mixture of ether and alcohol, regarding proportions, it is not particularly clear; that is you can use two or three, or equal parts. I would use them and mix them together until I got the desired consistency. That is I would take the collodion solution and add enough wood filler until I got it thick enough.

Q. Is there anything in this Griffiths composition, is there anything that is critical about it? That

(Testimony of Henry C. Roller—redirect.)

is, do the proportions [241] of the nitro-cellulose and your wood flour and if you choose, the castor oil and resin,—is there anything critical that they must be within certain limits or have certain percentages?

A. No, I should not say that there was.

Q. What would be the difference where the proportions vary from the large quantities that he gives here when he states that he uses 23 parts by weight of filler and 77 parts by weight of solution, in lines 25 and 26 on page 1?

A. Well, he could still use a great range of proportions, a decided variation of the 23 parts by weight of filler and 77 parts by weight of solution by changing the type of filler that he used and the type of solution that he mixes in,—the solvent that he uses. For example, 23 parts by weight of a filler such as China clay would make a totally different mass. And, substituting that for wood, in that case he would alter the proportions of solvent to get the physical consistency of the mass that he wanted.

Q. Well, suppose he took 30 parts of wood filler instead of 23 and used only 70 parts of the solution. How would that differ?

A. In all probability it would still make a perfectly workable mixture.

Q. And it would be a little bit stiffer, would it?

A. Probably, using the same ingredients, but with varying proportions.

Q. Now, will the nature of the wood flour used change the composition that Mr. Griffiths speaks of?

(Testimony of Henry C. Roller—redirect.)

In other words, instead of using pine wood flour, if he uses, say ironwood flour?

A. If he uses ironwood flour, because the wood itself is denser than pine, I would expect to get a much denser wood.

Q. Would you have to use more of the iron wood than pine wood to get a putty of the same constituency?

A. Undoubtedly you would, because ironwood is so much heavier than pine. [242]

Q. Now, referring to this Thompson patent, and this formula on page 3. Do you have that?

A. I have it, yes.

Q. In that solution he has celluloid, acetic acid, alcohol and essential oils. You have two parts of celluloid in eighteen parts of solvent or liquid, prior to the introduction of the various filling materials? Isn't that true?

A. Yes.

Q. How does that compare with the Griffiths composition where he has seven parts of celluloid scrap dissolved in seventy parts of solvent?

A. It would undoubtedly make a much thinner solution, but just how thin it would be I couldn't venture anything more than a guess.

Q. Now, whether that solution is thin or not, when he makes up his plastic, does that depend on the mixture of the celluloid and solvent or does it depend on the quantity of filler which is added to it?

A. Why, you have no filler indicated here be-

(Testimony of Henry C. Roller—redirect.)

cause of the excess of solvent over your celluloid, it is so large, the ratio of 2 to 18 in the case of this Thompson's solution, the material is bound to be much more fluid than where your solvents are in a much lower ratio, as they are in Pierson's and Griffiths'.

Q. I understand this formula he gives on page 3 is merely the solution of celluloid and solvent without having any filler added?

A. Yes, just the binder.

Q. Just the binder?

A. Yes.

Q. Now, when he is going to make a paste out of it he is going to add some filler to that binder, isn't he? Is [243] that the way you understand it?

A. Yes.

Q. Now, how much filler would he add to it when he is going to cover over articles as stated in line 6, page 2 of the complete specifications there?

A. Pretty hard to state until you know what his operating conditions are, whether he wants to use it just as a cement to paste things together, or *whatever* he hopes that the solution itself will have enough penetration to form an adhesive.

Q. From his disclosure, you cannot tell, then, that there is a sufficient amount of filler added to make a sort of paste?

A. No.

(Testimony of Henry C. Roller—redirect.)

Q. Referring to this Oblasser patent, of what consistency is his composition to be, where he states in line 50 as follows: "By mixing our coating with certain substances we may obtain a sort of agglomerate susceptible of being moulded", so as to mould battery boxes?

A. There again, I would believe that he had so proportioned his ingredients that he had this putty-like material.

Q. Of sufficient stiffness so you could give it a shape and it would retain that shape, and not just flow like a liquid?

A. It would hold whatever shape it was placed into. [244]

EARL S. WEBB

being called as a witness on behalf of defendant testified:

Direct Examination

By Mr. Miller:

My name is Earl S. Webb. I live at San Bernardino, California. I am 43 years of age.

I am the President of the Webb Products Co. Inc., the intervener in this action. Webb Products Company sells a plastic composition under the name of "Duratite Wood Dough." That is the same wood dough that the Pacific Marine Supply Company was selling. The relationship between the two companies is that of manufacturer and jobber of the manufac-

(Testimony of Earl S. Webb—direct.)

turer's products. Webb Products Company is the manufacturer and Pacific Marine Supply Company is the jobber.

Pacific Marine Supply Company has nothing whatever to do with the manufacture of our products. They merely purchase and re-sell. Prior to the institution of this suit against Pacific Marine Supply Company we received a notification from The A. S. Boyle Company of this infringement of their patent. I replied to it.

Q. Have you received any reports from your customers as to allegations made to your customers that by selling your product, Duratite Wood Dough, that they would be infringing upon this Griffiths patent?

Mr. Dike: I object to that as hearsay and also as attempting to prove the counterclaim in this case, which should be set up separately; and also because by the decision of the Supreme Court in the Chandler & Price case, which has been handed down since the intervention in this case, it has been directly held that questions of unfair competition arising under the circumstances of this case are not proper subject matters of a counterclaim.

The Court: The objection to the question is sustained.

Mr. Miller: May I have an exception? [245]

The Court: Allowed.

Mr. Miller: I would like to make a brief offer of proof: I propose to prove by this witness that he

(Testimony of Earl S. Webb—direct.)

received, among other inquiries, these letters that we are inquiring about as to whether or not the continued sales by his customers of this intervener's product was an infringement of the Griffiths patent; and that these inquiries were made following representations made to the customers that there was an infringement made by the intervener's product, if the jobbers or customers continued to resell them.

I would like to have these five letters marked for identification.

(Fifteen letters were marked defendant's Exhibit A-31.)

The Court: Any objection to the offer?

Mr. Dike: I object to the offer, your Honor.

The Court: Objection sustained.

Mr. Miller: Exception.

The Court: Allowed.

In our composition, Wood Dough, we have not at any time been manufacturing this product with or including ethyl alcohol as a solvent for the nitrocellulose. We have not done so at any time whatsoever in the manufactured product of Wood Dough put on the market. We never at any time in our commercial product put on the market included as our solvent wood alcohol. If Dr. Esselen made a chemical analysis of the commercial Wood Dough such as we put on the market, it would be absolutely impossible for him to have found any ethyl alcohol

(Testimony of Earl S. Webb—direct.)

or wood alcohol in that composition unless it was put in after it left our plant.

The shrinkage of our Wood Dough is materially less than the Plastic Wood composition placed on the market by The A. S. Boyle Company.

Q. Now I hand you plaintiff's Exhibit 49 and ask you to [246] notice that crack in there. Do you have any explanation as to how that crack is produced, if it is made from your composition?

A. I have no way of knowing positively, but I have my idea about it.

If the drying process is hastened as by heat it will have a tendency to do this. Heating the composition is the only way I know how to hasten the drying because the solvents are very volatile. I would say the same thing about the cracks in plaintiff's Exhibit 50. If Wood Dough is applied to an article properly and allowed to dry naturally in the open air, shrinkage cracks like you find in these two exhibits will not occur.

Q. Now, how do you apply your Wood Dough, or recommend that it be applied? Do you recommend that it be applied in making an article say of this size, as Exhibit 39, that it be built up in layers, like Dr. Esselen testified to?

A. I would encounter no difficulty in making that sized block with one application.

Instead of building it up in one-sixteenth of an inch layers, I would merely put out Wood Dough in one lump making it slightly larger because there is

(Testimony of Earl S. Webb—direct.)

some shrinkage in the Duratite and let it dry. The fire hazard in Plastic Wood is materially greater than in Wood Dough. This block shown to me marked "Pierson C", I made and also I made the fill. It is a block of wood with an edge of it gouged out. This black portion is the fill. I made up the composition used in making that fill. I used pyroxyline, 1 part by weight; ethyl alcohol, 4 parts by weight; ether, 4 parts by weight; and powdered charcoal, 4 parts by weight. I do not clearly recall whether the fill made in that block was made with one or more applications. It was not subjected to heat in drying nor to any pressure. The only pressure that was applied was putting in the mold by hand.

I built the fill slightly larger than the surrounding [247] surface then I sanded it on a disc sander so that the fill would be even with the surrounding surface of the whole.

(The block with this fill was offered and received in evidence as defendant's Exhibit A-32. It is forwarded as a physical exhibit.)

The can now handed me contains part of a batch of material which was used to make the fill I have just discussed.

Q. Can you open that can and show its present condition to the Court?

(The witness does so.)

Q. That is in the nature of a soft, plastic mass, is it? The reason I like to make the record on this

(Testimony of Earl S. Webb—direct.)

is sometimes these cans leak and the contents get out and the contents solidify in the can. Is that what you designate as a soft, putty-like liquid?

A. Yes; I would so designate it.

(The can was offered and received in evidence as defendant's Exhibit A-33. It is forwarded as a physical exhibit.)

Comparing the composition of the fill in Exhibit A-32 with that of Plastic Wood as to its properties outside of the color, I would say that it was slightly less durable. It has a charcoal composition and Plastic Wood has a wood composition. I would say that it is not as durable when tested under extreme conditions.

This other block handed to me marked "Pier-son O" I made up the fill in that block. It was not subjected to any heat or pressure during the drying except that pressure which was applied in making the mold. Two materials were used in making the fill because there is a repair in the fill and the repair was made with a different composition from that which the main fill was made with. The main fill was made from a composition containing one part by weight of soluble cotton, which we purchase under the [248] designation of 15-20 Seconds Cotton—4 parts by weight of ethyl alcohol; 4 parts by weight ether; 2 parts by weight spruce sawdust flour. The repair material used to repair the main fill was made with recovered pyroxyline 1 part by weight; ethyl alcohol, 4 parts by weight; ether, 4 parts by

(Testimony of Earl S. Webb—direct.)

weight; sawdust flour, 2 parts by weight; resin gum, one-twentieth of one part by weight.

Q. I will ask you to take a pencil and outline where the repair fill is in the main fill.

A. I gouged it out to make a number of fills there, so as to leave a place near the auxiliary composition to be used.

The main fill is the one that lies next to the wood grain that you can see, and the repair fills are those that are surrounded by pencil marks. The purpose in making these repair fills was to show the ability of this composition to make small repairs. That was the purpose I had in mind.

(The block was offered in evidence as defendant's Exhibit A-34. It is forwarded as a physical exhibit.)

In Exhibit A-34, the main fill was made with 15-20 Seconds Cotton and the small repair fill was made with recovered pyroxyline and resin gum. There is no other difference between the two fills. There is no material difference between the two fills made with the two different compositions. They are both very similar to fills made with Plastic Wood. The material in this can is part of the material that was used to make the main fill in block, Exhibit A-34.

(The can was offered and received in evidence as defendant's Exhibit A-35. It is forwarded as a physical exhibit.)

Mr. Miller: Q. Will you open this can and show the contents of it to the Court and counsel?

(Witness does so.)

(Testimony of Earl S. Webb—direct.)

Mr. Miller: Q. The present condition of the contents [249] of that can is putty-like or plastic?

A. It is.

This block marked "Pierson S", I made up. I made the composition of the fill there. It is made with one part by weight, 15-20 Seconds nitrated cotton ethyl alcohol, 4 parts; ether, 4 parts; spruce sawdust flour, 2 parts; castor oil, one-fortieth of one part. No heat or pressure were involved in drying that fill. I made some fills in this part with a slightly different composition.

(The witness then outlined with a pencil the fills that were made in the main fill.)

The fills that were made in the main fill were made of one part by weight, 15-20 Seconds Cotton; 4 parts by weight ethyl alcohol; 4 parts by weight, ether; 2 parts by weight, spruce sawdust flour; one-fortieth of one part resin gum.

(The block was offered and received in evidence as defendant's Exhibit A-36. It is forwarded as a physical exhibit.)

This can marked "Pierson S" and which I now open contains a composition made of 15-20 Seconds cotton, 1 part by weight; ethyl alcohol, 4 parts by weight; ether, 4 parts by weight; spruce sawdust flour, 2 parts by weight; castor oil, one fortieth *by* one part by weight. This composition was used in making the main fill in Exhibit A-36.

(The can was offered and received in evidence as defendant's Exhibit A-37. It is forwarded as a physical exhibit.)

(Testimony of Earl S. Webb—direct.)

The block marked "Pierson Q", I made up. The main fill is made of a composition of one part by weight, 15-20 Seconds soluble cotton; 4 parts by weight, ethyl alcohol; 4 parts by weight, ether; 2 parts by weight, spruce wood flour; one-fortieth of one part by weight of resin gum which is, by the way, ordinary pine resin. The small fill which I have superimposed on this main fill was made using recovered pyroxyline, one part [250] by weight; ethyl alcohol, 4 parts by weight; ether, 4 parts by weight; spruce sawdust four, 2 parts by weight; rosin gum, one-twentieth of one part by weight.

Q. Will you surround the small fill with your pencil, marking the superimposed from the main fill?

A. They are quite irregular and I would not make any attempt to be accurate, but I will put them as close as possible.

(The block marked "Pierson Q" was offered and admitted in evidence as defendant's Exhibit A-38. It is forwarded as a physical exhibit.)

This can marked "Pierson H" contains some of the composition that was used to make the small fills or repair fills in Exhibit A-38.

(The can was then opened and shown to the Court and offered and received in evidence as defendant's Exhibit A-39. It is forwarded as a physical exhibit.)

The material in this can now handed to me is the material used in making the main fill in Exhibit A-38.

(Testimony of Earl S. Webb—direct.)

(The can was opened and shown to the Court and offered and admitted in evidence as defendant's Exhibit A-40. It is forwarded as a physical exhibit.)

The main part of this object now handed to me was made by taking one part by weight of 15-20 Seconds nitrated cotton; 4 parts by weight, ethyl alcohol; 4 parts by weight, ether; one-fortieth of one part by weight resin gum; 2 parts spruce wood flour. That was made into a plastic mass and I took a small portion of it and just squeezed it out in my hand to make a little wedge stick out of it and let it dry, and when it had dried I sanded off the edges so that I could get the turning lathe to take hold of it, put it in the lathe and turned a little shape out of it. It had some imperfections after it had been [251] turned down to this shape, and I filled those imperfections with two other compositions, which I have noted here on this card and then I put it into the lathe and turned it down again so as to turn down the fills. In shaping the article prior to its drying and turning, I took just a small quantity of the composition and squeezed it out in an irregular shape so that it would be suitable for turning.

There are some additional fills in that wood turning. One is black and the other is white. The composition of the black fill is one part by weight, 15-20 Seconds cotton; 4 parts by weight of ethyl alcohol; 4 parts by weight of ether; 2 parts by weight of powdered charcoal; one-fourth of one part by weight of resin gum. The composition of the white fill is

(Testimony of Earl S. Webb—direct.)

one part by weight of nitrated cotton; 4 parts by weight of ethyl alcohol; 4 parts by weight of ether; 4 parts by weight of powdered chalk. There was no heat or pressure involved in the drying of this wood turning except as I have described in making it an oblong shape.

(The piece of wood was then offered and received in evidence as defendant's Exhibit A-41. It is forwarded as a physical exhibit.)

In this block marked "Pierson S", the main fill was made with one part by weight of 15-20 seconds cotton; 4 parts by weight of ethyl alcohol; 4 parts by weight of ether; 2 parts by weight of spruce wood flour mixed into a mix. The repair fill was made by using one part by weight of 15-20 Seconds cotton; 4 parts by weight of ethyl alcohol; 4 parts by weight of spruce wood flour; one-fortieth of one part by weight of resin gum. It is very difficult to outline with pencil the repair part in this fill but I will do the best I can.

(The block marked "Pierson S" was offered and received in evidence as defendant's Exhibit A-42. It is forwarded as a physical exhibit.) [252]

This block marked "Pierson J" had the main fill made with one part by weight of recovered pyroxyline; 4 parts by weight of ethyl alcohol; 4 parts by weight of ether; spruce sawdust flour, 2 parts by weight. The repair in this particular exhibit was made with the same material out of the same can.

(Testimony of Earl S. Webb—direct.)

(The block marked “Pierson J” was offered and admitted in evidence as defendant’s Exhibit A-43. It is forwarded as a physical exhibit.)

This can handed to me contains the contents from which the fill in the exhibit was made.

(The can was offered and received in evidence as defendant’s Exhibit A-44. It is forwarded as a physical exhibit.)

I made up one specimen of a compound according to the Pierson patent using instead of wood flour, sand. I made up this block. I used in the fill, one part by weight, recovered pyroxyline; 2 parts by weight, ether; 4 parts by weight; ethyl alcohol; and 10 parts by weight, sand. The block is marked “Fill Made with Pierson.”

Q. That is to represent the character of the composition that is mentioned in the Pierson patent where he states that he takes plastic, 1 part; alcohol, 4; ether, 2; sand, 5, in this second paragraph in column 1, page 3.

A. This is to represent the sand mixture, as I recall it.

The reason I used 10 parts of sand instead of 5 was the fact that the weight was so heavy 5 parts didn’t give enough body to use for that purpose,—that is, to use it satisfactorily for that purpose.

(The block was offered and received in evidence as defendant’s Exhibit A-45. It is forwarded as a physical exhibit.)

(Testimony of Earl S. Webb—direct.)

This can contains the mixture above-described using sand. [253]

It was stipulated that at the time that the can was opened to show the contents that there was a free liquid on top of the heavier substances.

(The can was offered and admitted in evidence as defendant's Exhibit A-46. It is forwarded as a physical exhibit.)

Referring to the free liquid found on top of the contents of the can, I have found such a liquid on many occasions in Plastic Wood when it has stood on the shelf in a store a considerable length of time. It is not true of our own product Wood Dough. The free liquid is the base or what in our plant we term the base with which the plastic was made.

Q. Is that free liquid which you see there due to the fact that the filler tends to settle out of the composition when it is allowed to set or rest for a considerable length of time in one position in the can?

A. Why, we term it precipitation, and that is what caused it, precipitates it inwards.

That is, it settles to the bottom of the can and the liquid tends to go to the top in the case of the sand filler as here it is somewhat more pronounced than when you have wood filler.

I made up a composition corresponding to Pierson's description of a calcareous compound in which he takes plastic or nitro-cellulose one part; alcohol, 4 parts; ether, 2; and chalk 1 to 4.

(Testimony of Earl S. Webb—direct.)

This block containing a white fill was made by me. The ingredients of the fill are recovered pyroxyline, 1 part by weight; ethyl alcohol, 4 parts by weight; ether, 2 parts by weight; chalk which was purchased from a drug store as U. S. P. precipitated, 4 parts by weight. This composition handles very much the same way as Plastic Wood. The fill was air dried without [254] any pressure during the drying. There is some shrinkage that occurred in making this fill and I did not build it high enough for proper sanding so that when it was sanded down, the rough part indicates the top of the original fill. The fill originally was made higher to allow for some sanding and when this was sanded off it had not been built up high enough to allow the sanding to take off some of the material all the way across and it shows the original surface.

(The block was offered and admitted in evidence as defendant's Exhibit A-47. It is forwarded as a physical exhibit.)

This can contains some of the material that was used in making up the fill in defendant's Exhibit A-47.

(The can was offered and admitted in evidence as defendant's Exhibit A-48. It is forwarded as a physical exhibit.)

This little block was made by me. The material used was recovered pyroxyline, one part by weight; ethyl alcohol, four parts by weight; ether, four parts by weight; spruce sawdust flour, four parts

(Testimony of Earl S. Webb—direct.)

by weight. The sawdust flour which we used in these experiments were bought from the Scott-Brown Sawdust Company in Los Angeles, under the designation "fine sawdust flour." It is very fine sawdust or very fine particles of wood. We buy it under that designation from the Scott-Brown Sawdust Company.

I shaped this block of wood roughly by using an ordinary putty knife. Then it was sanded off on a disc sander to smooth up the sides slightly. The top was left just as it was moulded by hand pressure and the use of an ordinary putty knife. It was allowed to dry without heat or pressure being applied during the drying.

I drove the nails or staples into the block. I had no trouble driving them in. The block worked just about the same as wood. I could not see any material difference. [255]

(The block was offered and admitted in evidence as defendant's Exhibit A-49. It is forwarded as a physical exhibit.)

This can contains some of the plastic composition that was used in making up defendant's Exhibit A-49. (The can was offered and admitted in evidence as defendant's Exhibit A-50. It is forwarded as a physical exhibit.)

I made up a mold using the contents of Exhibit A-50. This little rabbit is an object molded out of the contents of the same can. The mold that I used was a little lead cookery mold that I bought from

(Testimony of Earl S. Webb—direct.)

the Los Angeles Restaurant Supply Company. It was made in two parts. The composition was shaped into the two body parts and then they are squeezed together and the cohesion holds the object together and the mold is opened and the object taken out the object was taken out immediately after being pressed and then set out to dry.

(The molded rabbit was then offered and admitted in evidence as defendant's Exhibit A-51. It is forwarded as a physical exhibit.)

The Court: Before you go to that, I notice one where you used the charcoal seems to give off a great deal more of a smell of ether than any of the others. Is there any more ether in the proportions in that one?

A. I would have to check to answer your Honor. I do not believe there is, however. We have two parts ether and four alcohol and I think some of them have that condition reversed, but I would not say that definitely.

I am not enough chemist to answer intelligently whether there is anything about the charcoal that would promote the drying faster and throw off the solvent. The charcoal, however, I assume does not absorb as much of it as would the wood particles. That would be the only explanation I can give. I am not enough chemist to answer that intelligently. I don't [256] recall that in drying that it dried any faster because I was making a number of these

(Testimony of Earl S. Webb—direct.)

things at one time and I paid no particular attention. I was carrying on a number of them at the same time.

Turning to the disclosure in the Merrick patent, I made this block. The ingredients I used in making up the fill were reclaimed pyroxyline, one and one-half parts by weight; acetone, four parts by weight; ethyl alcohol, two parts by weight; ground spruce, two parts by weight; powdered cork, one part by weight. The block was dried in the same way as the other fills, that is filled up, allowed to dry, and sanded off.

(The block was offered and received in evidence as defendant's Exhibit A-52. It is forwarded as a physical exhibit.)

This can contains some of the composition used to make up the fill, in Exhibit A-52. (The can was offered and admitted in evidence as defendant's Exhibit A-53. It is forwarded as a physical exhibit.)

Q. Did you make up a composition according to Merrick, substituting wood flour in place of powdered cork?

A. I made this object here. I don't recall just what I substituted. I made it up by this formula which is arranged here, which is: film scrap, pyroxyline film scrap, two parts by weight; acetone, four parts by weight; ethyl acetate, four parts by weight; ground wood fibre, two parts by weight; ground asbestos, one part by weight.

I drove the nail and screw in that to show that these could be driven. (The object was offered and

(Testimony of Earl S. Webb—direct.)

received in evidence as defendant's Exhibit A-54. It is forwarded as a physical exhibit.)

In making up this small wood turning, I made a composition using film scrap, two parts by weight; acetone, four parts by weight; ethyl acetate, four parts by weight; finely [257] ground wood, two parts by weight; ground spruce, one part by weight. I took that plastic material which I had made and just squeezed that in my hand, allowed it to dry, put it on a lathe and turned it down to the shape in which it now is. Then I put it in a vice, drilled a small hole in the end of it, and then put in a slightly larger screw and screwed it in the fill. I roughly shaped it by turning it in a small wood turning lathe. Before putting it in I just made a little oblong shape so it would dry and then turned it down in the lathe. (The wood turning was offered and admitted in evidence as defendant's Exhibit A-55. It is forwarded as a physical exhibit.)

I made up a composition to represent the Oblasser disclosure. In this block there are two fills. The main fill was made with the composition of Oblasser patent No. 19,242. It contains, one part by weight, 15-20 Seconds cotton; acetone, four parts by weight; ethyl alcohol, two parts by weight; spruce wood flour, three parts by weight. I made that into a plastic composition and made the main fill and I knocked out part of it and filled it with Pierson's composition having the formula; reclaimed pyroxyline, one part by weight; ether, two parts by weight; ethyl alcohol, four parts by weight; castor oil, one-twenty-

(Testimony of Earl S. Webb—direct.)

tieth of one part by weight; lead oxide, one-twentieth of one part by weight; powdered quartz, seven parts by weight. This last composition made the white fill.

(The block was offered and received in evidence as defendant's Exhibit A-56. It is forwarded as a physical exhibit.)

The contents of this can was what I used to make the main fill in Exhibit 56. (The can was offered and received in evidence as defendant's Exhibit A-57. It is forwarded as a physical exhibit.)

I made up a wood turning from the contents of that [258] can. I took some of the contents in my hand and made a little oblong shape and left it to dry and then I put it on a lathe and turned it down, In doing so there was an imperfection on one side caused by its not being filled in that side. I filled this with another composition, put it back in the turning lathe and re-turned it to finish up the fill which I had made. The fill and the material below were all made of the same material but the fill was put on at a little later time.

(The wood turning was offered and received in evidence as defendant's Exhibit A-58. It is forwarded as a physical exhibit.)

I made up this small block. The ingredients I used were: One part by weight, nitrocellulose; four parts ethyl acetate; four parts alcohol; one-twentieth of one part ester gum; three parts by weight of sawdust flour. I drove the nail and screw in it.

(Testimony of Earl S. Webb—direct.)

It is sanded off one one side of the fat side and two sides of the thin side.

(The block was offered and admitted in evidence as defendant's Exhibit A-59. It is forwarded as a physical exhibit.)

I made up this block and fill myself. I used in making the fill, one part by weight of nitrocellulose; four parts by weight of acetone; two parts by weight of ethyl alcohol; one-twentieth of one part. resin gum; and three parts, spruce sawdust flour. It was dried without heat or pressure and sanded off in the same way.

(The block was offered and received in evidence as defendant's Exhibit A-60. It is forwarded as a physical exhibit.)

Referring to the Bussy or Thompson patent. I made up this fill in this block. I used two parts celluloid; seven parts acetone; one-fortieth of one part ester gum; one-fourth of one part resin; one-half of one part castor oil; two parts ground oats; one part asbestos fibre; two parts good beet pulp [259] two parts dried vegetables. The dried vegetables was a composition sold under that designation by Claypool & Company, seed dealers in San Bernardino. The patent calls for dried vegetables, and I went up to Mr. Claypool's store and asked him if he had anything of that kind and he said he did, and I bought a small quantity of it. This composition was dried without heat or pressure.

(The block was offered and received in evidence as defendant's Exhibit A-61. It is forwarded as a physical exhibit.)

(Testimony of Earl S. Webb—direct.)

This small block I made myself. The ingredients used in the composition to make up the block were: two parts by weight of celluloid scrap; seven parts by weight of acetone; one-fourth of one part by weight resin gum; one-fourth of one part by weight ester gum; six parts by weight walnut shell flour; one-half of one part by weight castor oil; one part by weight ground asbestos; one part by weight talc. These ingredients were mixed up into a plastic composition. I shaped the block roughly on a piece of glass off the library table by the aid of an ordinary putty knife and by hand. I allowed it to dry and then sanded it as it now appears. I drove the nail and screw into it after it was dry. All of the nails and screws that I put into these various blocks were driven in after they had dried.

(The block was offered and admitted in evidence as defendant's Exhibit A-62. It is forwarded as a physical exhibit.)

I made up the fill in this block marked "Calsatine-A." The ingredients I used in making up that fill were: two parts cellulose; two parts by weight of celluloid; seven parts by weight of acetone; one-fourth of one part by weight of resin gum; one-fourth of one part by weight of ester gum; six parts by weight walnut shell flour; one-half of one part by weight castor oil; one part by weight of ground asbestos; one part by weight of powdered talc. This composition was dried in the same [260] way and finished by sanding.

(Testimony of Earl S. Webb—direct.)

(The block was offered and admitted in evidence as defendant's Exhibit A-63. It is forwarded as a physical exhibit.)

Turning to the Parks patent, I made this molded mass. It is made from one part by weight, reclaimed pyroxyline; three parts by weight, ethyl alcohol; two parts by weight of ether; one part by weight of cotton linters; one and one-half by weight of ground arrowroot; one part by weight of zinc white. I just squeezed the composition in my hand and let it dry to produce that shape.

(The block representing the Parks patent was then offered and received in evidence as defendant's Exhibit A-64. It is forwarded as a physical exhibit.)

The contents of this can was what was used in making Exhibit A-64. (The can was offered and received in evidence as defendant's Exhibit A-65. It is forwarded as a physical exhibit.)

Cross Examination

Mr. Dike:

The solvents that we used in Wood Dough were chemically pure acetone bought by that name. I can give you the formula as it is copied from our work sheet. It is chemically pure acetone, ester gum, gum elemi, benzol, film of three different nitrations, dibutyl, phthalate, and castor oil. We use as fillers finely ground wood fibre, 11%; inert material, 30%. You positively do not have to keep Wood Dough

(Testimony of Earl S. Webb—cross.)

cool to enable it to dry without shrinkage. If it is applied properly there will not be any cracks appearing if dried under ordinary temperatures of a hot day. I can't state the exact date when all of these various exhibits identified by me were made. They were all made within the past thirty days. No one was present during the making of them the greater part of the time. Mr. Roller was [261] present part of the time. There were other people in the building always but no one knew what was going on particularly.

In making up the various specimens to illustrate the Pierson patent, I used the type of cellulose designated on the card attached to it. It is different in some cases than in others. The reason I changed was because I was instructed to do so by our attorneys. There is some variation as to the solvent as indicated on the cards. The reason for making this variation was in following these patents there was some variation called for and we wished to demonstrate the effect that the variation of the solvents would have. That was the way I understood it. In certain cases I made a main fill and then filled it with another material to demonstrate the composition's ability to adhere both to its own composition or like composition and to other objects, and also in some instances to fill some defects which appeared in making them up because some of them were imperfect and I merely filled them up with other materials and designated the ones that I employed.

(Testimony of Earl S. Webb—cross.)

I have not presented all of the specimens which I made at this time. We made quite a few others. I would say a great many others. I don't recall just how many but easily as many more as are shown here.

I haven't produced the other letters of the alphabet as I recall. I believe we made up such samples in going from one extreme range as to as far as we went with the other. I don't know just what extremes we did go to but I know we went, generally speaking, to the extreme range both ways of the materials or quantities called for in the specifications. We went to both extreme ranges and then made some specimens intermediate of the ranges. We did not select one particular composition or group of proportions and make up that alone as the only one because that would not have shown the range which was called for. I know that [262] all of these compositions in this particular range would show approximately the same because the ingredients were all generally nearly the same there would not be a great deal of material difference. I can't truthfully tell just when I first came in contact with Plaintiff's Plastic Wood. I believe it was about 1925. The first I recall having any occasion to get a copy of the Griffiths patent was when we were notified that a patent was issued. I would not be positive about that. It was soon after, I don't recall how soon. I have attempted to study the patent carefully and I was fully familiar with it before I

(Testimony of Earl S. Webb—cross.)

made any of these specimens. Defendant's Exhibit 43, which is the composition made with charcoal, is not about the consistency of heavy black sand. I would say it is considerably heavier.

I filled the cavity in Exhibit A-32 in very much the same way that you describe filling a piece of material the other day with Plastic Wood by building it up in thin layers, allowing each one to dry, and after it dried, putting on some more until I had built it up to slightly higher than the surface I desired, and then when it had dried thoroughly, I sanded it off. The section in this fill is flat all the way across. It was chiseled out, sanded down the full depth, and then chiseled out flat across here.

The material in Defendant's Exhibit A-48 is still liquid. It is a heavy paste but it flows. It has a certain degree of flexibility. It has some rigidity yet it has a certain amount of flexibility. I would say it would approximate the rigidity of soft wood, sugar pine or something of that kind. I made this material by taking these various materials which are mentioned in Merrick's specifications and by making them up in the various proportions I found it would make a plastic mass of various proportions by adding more solvent or less solvent, or more filler or less filler, or various kinds of filler. I made quite a number [263] of experiments that were satisfactory and I would not say how many I made. I have made numerous experiments with numerous patents which I have examined. We made several

(Testimony of Earl S. Webb—cross.)

experiments before we made the specimens of the Merrick composition, and the first ones we made were oftentimes just as satisfactory as we made later because we were going all the way down the limits of the possible combinations. Exhibits A-54 and A-55 are not flexible. They are not made with flexible materials.

Referring to the Oblasser patent, I arrived at the proportions used in making specimens A-56, A-57, and A-58, by the same method I have just discussed. By referring to the last paragraph of the first page where it says, "The agglomerate is constituted by a paste composed of any suitable solid materials, such as asbestos, pounded glass or sandstone, sawdust or cork waste; cork powder, metallic powder or oxide, amylum, resin, pulverized carbon or the like mixed with above-mentioned liquid coating." I have made up more than one mixture under Oblasser. I can't recall the number but I made up a number. Exhibit A-60 which is marked "L-1 Oblasser" I believe was so marked because it refers to the nitro-cellulose mixture as one of them used nitrated cotton and the other was film scrap as I recall. I don't say positively as to that. The marking was to differentiate between the two types of nitro-cellulose used.

Referring to the Thompson or Bussy patent, the information is briefly given on the second page which reads,

"This invention has for its object the manufacture of a water-resisting and impermeable

(Testimony of Earl S. Webb—cross.)

paste-gum or coating which is obtained by means of celluloid dissolved or simply softened by one or more suitable solvents such as acetone, acetic acid, ether, alcohol, or the like, pure or mixed, and in this case with the addition of other suitable substances dissolved or otherwise, such as resin, oil, gums, waxes, or the like, [264] vegetable refuse or even tale, chloride of magnesium, mineral or organic salts, vegetable, mineral or animal powders, et cetera.”

I didn't say I got the proportions there. I said I got the information which would enable me to get the proportions that way. I would not be able to tell accurately how many mixtures I made up in accordance with the Bussy patent. I made up a number. The material in Exhibit A-55, I didn't say could be used with a putty knife. It contains unground cotton linters.

Q. In all these materials which you have made up, this entire collection—I have gone through it and I find that in every instance you use either two or four parts of filler except, if I am correct, in A-46, which is under the Pierson patent. Why didn't you use other proportions, for instance three parts or eight parts of filler?

A. Well, I found that two to four parts, and right around in that range, made a very satisfactory filler. It was the logical amount to use to produce the plastic which is discussed in the patent, in the

(Testimony of Earl S. Webb—cross.)

specifications. That is within the range that was given in these specifications.

Q. And if you went outside of that range you did not get a satisfactory material?

A. I wouldn't say that it would. Depend on what you were wanting. If you wanted a material for molding, you would add slightly more of the wood filler; and I think that the specifications on the molded articles there show that slightly more filler was used, just a slight amount more, necessarily.

Redirect Examination

By Mr. Miller:

The A. S. Boyle Company puts out a solvent for use in [265] connection with their Plastic Wood. I purchased some of it this morning. This is the can I purchased. I bought it at the Washington Hardware Store here in Tacoma. The directions on the can read:

“Directions. If Plastic Wood or Plastic Wood White Waterproof Tile Cement hardens in the can from exposure to the air, pour in a little Plastic Wood solvent. Replace the cover tightly and allow to stand over night. If sufficient solvent has been added, the contents will be restored to its original plastic condition. Use solvent to clean hands or tools after working with Plastic Wood. Keep can tightly closed when not in use.”

There is nothing on the can to indicate what the original plastic condition of Plastic Wood shall be

(Testimony of Earl S. Webb—redirect.)

or was. I purchased this package this morning in Sears Roebuck. I have preserved it in the manner in which I obtained it.

Q. I will ask you to open this tube. I would like to have it appear in the record that this tube is hermetically sealed and this witness will now open it. I would like to have you open it and on a piece of paper squeeze some out onto a piece of paper to demonstrate the pasticity of that composition,—the plasticity or fluidity of that material.

(Witness does so.)

I do not believe that you could mold with that material.

(The witness then removed some of the contents of plaintiff's Exhibit 36 and placed it on the paper by the side of what was removed from the tube.)

Q. Will you state how the consistency of what was in the tube and what was in the can compare?

A. Well, it doesn't compare very favorably. The material in the can is of a much heavier consistency than the other material. [266]

This block that is stamped "Duratite Wood Dough" contains a fill that I made. It is made of Duratite Wood Dough which is our product as put on the market. This fill was dried in the same way as other examples of the fill made in accordance with Pierson, Merrick, and others with the exception that those made with whiting and charcoal were made by the successive applications of thin layers. The other fills were all made in one application.

(Testimony of Earl S. Webb—redirect.)

(The block of wood stamped "Duratite Wood Dough" was offered and received in evidence as defendant's Exhibit A-66. It is forwarded as a physical exhibit.)

Prior to 1920, I made a composition containing nitro-cellulose and solvent. I made plastic materials using nitro-cellulose and a volatile solvent with a finely divided wood filler when I was an enlisted man in the United States Army during the World War at Kelly Field, Texas. We made this material, using what we used as airplane dope and fine sanding dust from the planing and sanding mill and to repair chipped out parts in airplane propellers, landing gear, etc., where the stones thrown by the draft of the propeller would nick out chips and there is where I learned the formula of making this material. This was a general practice at Kelly Field, Texas, as well as at numerous other fields. The consistency of the mixture was very much the same as those we have here in the exhibits.

Q. Now, from your observation in making these various compositions that were to represent what is disclosed in the Pierson, Thompson, Merrick, Oblasser patents and perhaps others, did you observe that there was anything critical about the particular proportions that had to be used?

A. I did not. There was nothing critical about the proportions.

Q. If you used more or less nitro-cellulose would that [267] affect the composition in any material respect?

(Testimony of Earl S. Webb—redirect.)

A. Well, within certain ranges. If you got outside of these ranges it would affect it.

As long as you did not take absurd proportions you would get practically the same result. As to the solvent in the finished result the solvent made no difference because the solvents were all evaporated. The fillers made some difference. For instance, if you wanted to fill a small cavity or fine crack, it would not be made as heavy as if you wanted to fill a big knot hole.

I have taken a composition representing the Merrick patent, such as was used to make Exhibit A-52, and pressed it out into a thin layer and allowed it to dry. I tested the composition after it had dried to determine its flexibility. It had a certain degree of flexibility closely approaching that of heavy sole leather. All of the compositions that I made which were within the approximate ranges of those representing the Thompson, Merrick, Pierson, and Oblasser patents employing the cellulose filler were suitable for patching up wood. By the term "approximate range", I would say from one to three or four parts either way of materials or solvents or nitro-celluloses as used, depending upon the relative quantities of the various materials. If we have a composition made here with nitrocellulose, four; ether, four; alcohol, four; and a cellulose filler, the filler might have been increased up to six or eight, or decreased down to two or three, or could be increased to even a greater degree by using certain

(Testimony of Earl S. Webb—redirect.)

types of very compact materials. With the proportions by weight you could increase the range even to that extent. For instance, I have found that the walnut shell flour will weigh approximately twice as much per given bulk as the same bulk will weigh of spruce flour. In other words, one pound of walnut flour would take up no more room than one-half pound of lighter material. [268]

Recross Examination

By Mr. Dike:

As to what took place at Kelly Field, I am speaking entirely from memory.

The Court: It will be understood, then, that the time will be divided equally between direct and cross examination of this witness, from now until 12 o'clock.

Mr. Miller: It is perfectly agreeable to me. I want to read this *dedimus potestatum*, but as I gave warning in my opening statement, I want to preserve my objection to the introduction of that deposition for any purpose in this case, and also to preserve all my rights to object to the interrogatories that were propounded by the plaintiff's counsel. Now, the order that granted that specifically provided that these objections should be deferred until the time of offer, and I want it distinctly understood in this connection.

DR. GUSTAVUS J. ESSELEN,

recalled in rebuttal testified as follows:

Direct Examination

By Mr. Dike:

Q. You are the Dr. Esselen who has already testified in this case?

A. Yes.

Q. You have heard Mr. Webb and Mr. Roller testify as to the Merrick patent, as to certain experiments or specimens which have been made, purporting to be in accord with the Merrick patent. What have you to say?

Mr. Miller: I object to that question as too indefinite. I don't know what he is calling for.

The Court: Objection overruled. [269]

Mr. Miller: Exception.

The Court: Allowed.

A. The Merrick patent, as it states at the heading, is for a filler for shoe-bottoms.

Just as your Honor knows, generally men's shoes are made in such a way that there is a heavy outer sole and an inner sole; and in welt shoes there is a space between the outer sole and the inner sole because of the fact that the inner sole is supported all around the edges by the welt, and that leaves a hollow space in there which is ordinarily filled up by a composition, ordinarily referred to as a shoe-bottom filler.

Now, as described by Mr. Merrick, there are certain essential properties in a shoe bottom filler; one is that it shall have a certain amount of elas-

(Testimony of Dr. Gustavus J. Esselen—rebuttal—direct.)

ticity or resiliency so that when the weight of the foot goes down on it, it is not hard. The second essential requirement, and even more important, obviously, is flexibility so that when you walk, the bottom of the shoe will give with the movement of the foot. And in two places here in the patent, one in line 30 and again in line 68, the quality of flexibility, a permanent flexibility, in line 68, is referred to.

Now, the Merrick patent gives no proportions. It merely states the ingredients which are to be used in the material, but it emphasises, as I say, that the material shall be flexible. It says what it shall be made out of: "My invention consists in a plastic composition comprising essentially a solution of pyroxyline,——"

The Court: Define that, if you will.

A. Nitro-cellulose. "——a suitable base consisting preferably of ground cork and asbestos filler or other fibrous material. The solution of pyroxyline serves as a binder or [270] cement,——" and so on.

Now, in accordance with that description, and bearing in mind that these shoe fillers are ordinarily always made of ground cork as we have stated here, I have made up a sample in accordance with the Merrick patent, which is permanently flexible, made from ground cork and the other constituents which are here, and this is a sample of the material.

(Testimony of Dr. Gustavus J. Esselen—rebuttal—direct.)

(The specimen presented by the witness was offered and received in evidence as plaintiff's Exhibit 58. It is forwarded as a physical exhibit.)

Q. Now, will you refer to the Oblasser patent and make such comments on that and on the testimony that you have already heard as you think desirable?

A. In the Oblasser patent again, no proportions are given. There are three distinct features to the Oblasser disclosure. The first is a coating for battery boxes, for the inside of bottery boxes, to make them waterproof. That coating he describes as being made of nitro-cellulose with or without camphor, dissolved in ether, acetone or other suitable solvent.

That coating liquid, from the language of the patent, it seems to me must necessarily be a free-flowing liquid like a paint, as it is described as being applied by a brush or roller. It has no filler in it.

Now, the second feature of that Oblasser patent is an agglomerate, which is made by mixing this coating liquid with a filler. The purpose of the agglomerate, as described in the patent, is to make battery boxes directly from this molding.

Now, if you are going to make an article like a battery box which is open only on one end or one side, it is obvious that you cannot use a mixture for that purpose which has an appreciable amount of volatile solvent left in it. When it refers to making

(Testimony of Dr. Gustavus J. Esselen—rebuttal—direct.)

battery boxes by moulding, it must necessarily [271] refer to the mechanical operation of moulding under pressure, probably also with the aid of heat, because if one were to rely on shaping the box first and then allowing it to set up by the evaporation of the volatile solvent, there would necessarily be warpage during the drying, for the simple reason that the volatile solvent would dry out much more freely from the outside of the box than it would in the inside space, in the inside of the box, and that would necessarily result in warping. Therefore, what is described here must be a very stiff mixture which is moulded by mechanical processes under heat and pressure.

The third feature of the Oblasser patent is simply a cover for battery boxes, which cover is made, essentially, of a piece of transparent celluloid.

Q. Now, will you refer to Hubbard's book on "The Utilization of Wood Waste", the three paragraphs to which Mr. Roller referred and make such comments on that as you think necessary?

A. First, on page 8 of Hubbard's book on "The Utilization of Wood Waste" it reads as follows: "The use of sawdust in combination with binding and cementing substances, such as glue, albumen, blood and resin to form plastic materials or so-called artificial wood is already somewhat old and well-known."

Now, if one were to make an artificial wood, using glue, albumen or blood obviously the finished product

(Testimony of Dr. Gustavus J. Esselen—rebuttal—direct.)

would be affected by atmospheric conditions, depending upon the moisture or whether exposed to water. If it were made up with resin it obviously would have to be heated to be rendered plastic and capable of being used. And when it cooled it would harden and become brittle. It would not be the character of material at all with which we are dealing here in the Griffiths patent.

Then, on page 10 of the same book the statement is made: "Sawdust of any sort may also be used in making plastic [272] cements for filling up defective places in woodwork, and it is advantageous for this purpose to use the sawdust of the same kind of wood as that to be filled."

There is a very general statement with no directions given as how to do it or what the binder is or anything else.

On page 178 there is a paragraph which again gives no proportion and which reads as follows: "In the manufacture of a plastic composition which can be moulded F. Matas y Rodes (French patent 349,762, 1904) employs sawdust or shavings mixed with a solution of nitro-cellulose in methyl alcohol for the purpose of binding the particles together. The material is pressed in heated moulds, which are constructed of perforated sheet metal or wire gauze in order to allow the solvent to escape."

Now, this, obviously, is quite different from Griffiths' patent, because this is what is known as a

(Testimony of Dr. Gustavus J. Esselen—rebuttal—direct.)

hot moulding composition, where it is put in a hot mould and formed under heat and converted into such a condition that when it cools it solidifies. This is a hot moulding composition, quite different from Griffiths'.

Those are the three paragraphs to which reference was made.

Q. What have you to say as to the "Engineering" publication?

A. The reference in "Engineering" is on page 785 of the issue for December 9, 1921, and the first paragraph contains the following statement, after referring to a new material named by the firm, "Plastic Wood", it describes it as follows: "It is a collodion preparation made with very fine wood meal, and as supplied ready for use is of the consistency of soft putty, and of much the color of deal."

Now there again, aside from the expression that it is "a collodion preparation" and saying that it contains very fine wood [273] meal, no information is given as to how the consistency of putty is obtained. It might, for example, be obtained by using a relatively thin solution of nitro-cellulose with a low nitro-cellulose content and using a considerable portion of wood meal. If that were done, the resulting product would be quite crumbly and weak, because it would not have the necessary strength, although it would have the consistency of putty.

(Testimony of Dr. Gustavus J. Esselen—rebuttal—direct.)

On the other hand the same “consistency of putty” might be obtained by using a collodion solution, which is fairly heavy in its content of nitro-cellulose, which would only permit a relatively small amount of wood filler to be incorporated with it to get the consistency of putty, in which case, when it had dried down there would be a very considerable amount of shrinkage and the product would not bear much resemblance to wood.

Q. You heard Mr. Webb’s testimony as to the sale by The A. S. Boyle Company of additional solvent for use with Plastic Wood. Will you explain why that is necessary, if you know?

A. Yes. I wonder if I may see that exhibit?

Mr. Dike: Weren’t these offered?

Mr. Miller: Yes, they were offered, certainly—supposed to have been. I would like to make the offer now if they have not been. I offer both the solvent and the tube.

Mr. Dike: I make no objection to the lateness of the offer.

(The sample of Plastic Wood Solvent was offered and received in evidence as defendant’s Exhibit A-67. It is forwarded as a physical exhibit.)

(The sample of Plastic Wood was offered and received in evidence as defendant’s Exhibit A-68. It is forwarded as a physical exhibit.) [274]

In other words, that is put out for the convenience of the buyer because when a carpenter or other

(Testimony of Dr. Gustavus J. Esselen—rebuttal—direct.)

person is using Plastic Wood it is not always convenient to put the cover on absolutely tight. In other words, there is a slow drying out of the material in the can which is unavoidable, and in order that the material may be put back to its original condition for use, this solvent is provided and the directions for its use are provided, which specifically state that: "If sufficient solvent has been added, the contents will be restored to its original plastic condition."

And the second purpose for putting out this solvent is to clean the hands or tools after working with Plastic Wood, because it has a habit of sticking very tenaciously to the hands or the tools.

Q. Now, referring to the tube of Plastic Wood, A-68, state why, if you know, the material in that tube is slightly softer than the material in the standard cans of Plastic Wood.

A. The material is put out in the tube form for convenience in use. If it were the same material as in the can, it would not be possible to squeeze it out from the narrow opening of the tube. Accordingly, in making Plastic Wood that is put out in tube form, a small amount of the volatile solvent is added. The composition of the base is not in any way changed, and the contents of nitro-cellulose, ester gun and castor oil and wood here are in exactly the same proportion as in the form in the can. There is merely the slightly greater percentage of solvent to enable it to be easily squeezed out of the tube.

(Testimony of Dr. Gustavus J. Esselen—rebuttal—direct.)

Q. In the early part of your answer you said that the materials were the same. You meant the consistency, didn't you?

A. No, the consistency is higher in the materials in the cans, but the materials are the same.

Q. That is what I wanted to make sure. You heard [275] Mr. Webb say that the proportion of solids made no difference. What have you to say to that?

A. Well, that is a rather broad statement. In what connection, please, Mr. Dike:

Q. Mr. Webb was explaining, if I remember correctly, that the proportions of solvent to solids made no difference in the final product. Will you just explain what the proportionate relationship should be and why a material which is putty-like in the first place may not necessarily produce a satisfactory product after drying?

A. I have more or less covered that in my discussion of the "Engineering" reference. The important point is simply this: That you may secure a putty-like consistency in one of two ways: You may either secure it by taking a solution which contains a small quantity of nitro-cellulose and add a considerable amount of wood flour to it until you get the consistency of putty, but the material would not have sufficient binder in it to give you a wood-like material when it has dried. Or, you may obtain your putty-like consistency by using a more viscous

(Testimony of Dr. Gustavus J. Esselen—rebuttal—direct.)

nitro-cellulose solution which would permit only a small amount of wood flour to be added to obtain the putty-like consistency, and when that dried down there would be considerable shrinkage and it would not be wood-like when it had dried.

Q. Do you find in any of the patents or publications discussed by Mr. Roller or Mr. Webb any description which would have taught, without experimentation, how to make a material containing nitro-cellulose, finely divided cellulose filler and a volatile solvent in such proportions as to harden upon mere exposure to air to substantially the rigidity and solidity of wood?

A. I found absolutely there was no such disclosure in any of those patents. To be sure, if one started in his mind with the concept which Mr. Dike has outlined, it would then be possible [276] by considerable experimentation to find, within the limits—rather wide limits—of the proportions which are given in some of these patents, particularly the Pierson patent, a set of proportions which would correspond to the material having the properties which Mr. Dike has described. However, unless one started with that concept in mind, I find absolutely no such description in any of these patents; and in order to obtain such material it would be necessary to either have exceeding good fortune and happen on such a mixture by chance, or else to carry out a long series of experimentations to find

(Testimony of Dr. Gustavus J. Esselen—rebuttal—
cross.)

that composition which would correspond to that
concept.

Cross Examination

By Mr. Miller:

Q. Now, what is in this Exhibit 58, Dr. Esselen?

A. Well, there is——

Q. Do you have your notes on that?

A. I think I do. That sample was made up from
nine grams of nitro-cellulose, which was wet with
three grams of denatured alcohol. There was added
to that 62 grams of wood alcohol—that was crude
wood alcohol.

Q. How many, 62?

A. Sixty-two. 18 grams of castor oil; 13.5 grams
of ground cork; and 2 grams of asbestos fibre.

Q. Anything else?

A. That is all.

Q. Do you call this cork material in here ground
cork?

A. I call that ground cork.

Q. Did you ever hear anybody else call that
ground cork?

A. That material was selected of that particular
degree of fineness because I happen to have seen a
number of shoe-bottom fillers in which cork of that
degree of fineness was used. That [277] is why that
was used.

Q. Now, this Pierson patent calls for ground
cork, doesn't it?

(Testimony of Dr. Gustavus J. Esselen—rebuttal—
cross.)

A. I don't remember whether Pierson—

Q. I mean the Merrick patent, under which you made that?

A. Right.

Q. And does it say, in that Merrick patent, anything about adding 18 grams of castor oil?

A. It says that the material must be flexible and able to bend, and I used that as a means of obtaining flexibility.

Q. My time is limited, and I will ask you to answer my questions as closely as you can. Does it say anything in the Merrick patent about putting in castor oil?

A. Specifically, no; but it says to add a material—

Q. (Interrupting) That is all I want.

A. —which will give permanent flexibility.

Q. What is the effect of castor oil?

A. It adds flexibility, a permanent flexibility to a compound which is made from nitro-cellulose.

Q. You have in that composition 18 parts of castor oil as compared to about 110 parts total, do you not?

A. Approximately that. I haven't added it up.

Q. And what is the maximum amount of castor oil that Griffiths suggests in any of his compositions?

A. I don't recall that, but I was not duplicating Griffiths at that time.

(Testimony of Dr. Gustavus J. Esselen—rebuttal—cross.)

Q. I didn't ask you that. I want to know what his maximum is.

A. I don't recall.

Q. You don't know, in other words? Is that correct?

A. No. [278]

Q. Now, when Mr. Merrick is referring here to "Other elastic material than cork may be employed as the base, as for instance finely divided wood, leather, paper pulp, etc.," he is referring to some material having the elasticity of approximately wood, isn't he?

A. As a filler, yes.

Q. Wood is not a very elastic material, is it?

A. Wood is not.

Q. You wouldn't call it that, but he designates that as "elastic", Merrick in his patent, doesn't he?

A. No, he says he uses that as a filler.

Q. Doesn't he say "other elastic material than cork may be employed as the base, as for instance finely-divided wood?"

A. That is right.

Q. And he is characterizing "finely-divided wood" as an elastic material?

A. That is right.

Q. And if he made that compound up with finely-divided wood what would he have?

A. If he made it up of finely-divided wood, he

(Testimony of Dr. Gustavus J. Esselen—rebuttal—cross.)

would have a flexible, rubbery material approximately similar to the sample I made with cork.

Q. Have you ever made up this composition of Merrick's leaving out this loading of castor oil and using the finely-divided wood?

A. I do not think I have, because the castor oil is not "loading", Mr. Miller. It is put in there under specific directions of the patent to provide flexibility.

Q. Well, tell me where the patent told you to put in one gram of castor oil.

A. In line 30 it says that the finished product is "one that shall possess flexibility." And in line 68 it says, "It [279] remains very flexible."

Q. It does not tell you anywhere in this patent to put in one particle of castor oil?

A. It told me to put in some material which would keep the product flexible.

Q. Merrick says this material is sufficiently elastic or flexible without it, doesn't he?

A. No, I beg your pardon.

Q. He does not give you any suggestion to put any in, does he?

A. He certainly does.

Q. Where?

A. The part I have just read to you.

Q. You don't see any castor oil there, do you?

A. I beg your pardon?

(Testimony of Dr. Gustavus J. Esselen—rebuttal—cross.)

Q. You don't see any castor oil mentioned anywhere in this patent?

A. I said I did not see it mentioned specifically.

Q. Now, I will ask you to refer to this Oblasser patent and just point out where you find any suggestion in this patent of using heat and pressure in moulding.

A. On page 3, at the top of the page it reads as follows: "Under these circumstances, instead of rendering a receptacle of wood or other material tight by the application of our coating we may manufacture it directly by moulding, use being made of the said agglomerate", which I described.

Q. Where does it say anything about using heat?

A. I interpret it in that way because I do not know how it could be made, practically, in any other way.

Q. Well, you have some compositions here made up of nitro-cellulose, solvent and cork powder and sawdust that have been moulded, haven't you? [280]

A. Yes, but I haven't seen a hollow box made that way and I know, from my experience with celluloid, that if you wanted to make a celluloid box you would have to make it under heat and pressure for the reason that I have described.

Q. There is nothing stated in that patent about using pressure, is there?

A. No.

(Testimony of Dr. Gustavus J. Esselen—rebuttal—
cross.)

Q. Is there anything stated here that you can put your finger on that says to use some heat?

A. No.

Q. You would not, even assuming that the patent did not tell you to do it, would you, in making up that composition?

A. No, but the patent does not tell me not to use heat and pressure, and my common sense tells me that to do it successfully you would have to use heat and pressure.

Q. Now, you said something about them warping if you did not use heat and pressure. Do you know whether or not Plastic Wood, as put out by the Boyle Company, when it dries, warps?

A. If it were moulded into a box under these conditions it would warp, for the reason that I have explained, the solvent will evaporate more rapidly from the outside than from the inside.

Q. As a matter of fact, many of these exhibits that we have here show warpage, do they not? Look at the end of this little turning, Exhibit 41. You see some warping in that, don't you?

A. There is a certain amount of shrinkage in the flat surface.

Q. And also some warping?

A. I don't call it warping. In fact, that surface looks quite flat to me. [281]

Q. How about some of these pieces that were? Do you remember them at all?

(Testimony of Dr. Gustavus J. Esselen—rebuttal—cross.)

A. These happen to have been top surfaces and there was no pains taken to avoid it after it was made, or to keep it, in fact, with an absolutely even edge.

Q. These other exhibits here, such as 37, these were sanded after they were made, weren't they?

A. Yes, they were sanded after they were made.

Q. Do you know whether they were warped prior to the sanding?

A. I don't recall.

Q. Didn't you see them?

A. Yes, but I don't recall.

Q. Now, referring to Hubbard, page 10, and to the part that you read of that page. What further instructions did you need to make up that piece of wood?

A. Well, if you mean absolute, complete instructions, there weren't any given here.

Q. Well, are you again to use the same common sense that told you you should use heat and pressure, in Oblasser or not?

A. Well, personally, I do not think the question applies here, Mr. Miller. I surely hope I used some common sense in making the thing up.

Q. If you had these directions there you would know how to make up that composition, wouldn't you?

A. This says: "Sawdust of any sort may also be used in making a Plastic Wood Cement for filling

(Testimony of Dr. Gustavus J. Esselen—rebuttal—cross.)

up defective places in woodwork.” Now that certainly makes a statement, but gives absolutely no indication as to how.

Q. How about page 8?

A. Page 8, the suggestion is made that that may be made with glue, albumen or blood, and as I have already said, as a matter [282] of fact, that if it were made with these materials it would obviously be affected by water or moisture. Or it says that it can be made with resin; and if you use resin to make it you have got to heat the resin and allow it to cool after it is in place.

Q. Now, you know how to mix up some glue and sawdust, don't you?

A. Yes.

Q. You wouldn't have to have any further directions on that?

A. No.

Q. Coming back to page 10.

A. Yes.

Q. Would you know how to mix up some sawdust and cement?

A. Yes. “Sawdust of any sort may be used in making a plastic cement,” but it does not say what binder. It may be made with wood and you could mix it with the glue or the albumen or the blood or resin.

Q. Any mixture could be used to make that, one practically as good as the other? What does it say?

(Testimony of Dr. Gustavus J. Esselen—rebuttal—cross.)

A. It says, "Sawdust may be used to make a plastic cement" but it does not say what the binder is.

Q. Referring back to page 178 in this book, in making up Exhibit 49 you used some heat, didn't you?

A. Yes, I used heat approximating that of a hot summer's day.

Q. But you used that for five days, didn't you?

A. Yes.

Q. You never heard of a summer's day lasting that long?

The Court: I don't understand that question.

Mr. Miller: Q. Why did you use heat for that length of time? [283]

A. As a matter of fact, heat was applied intermittently during the day when the laboratory was operating and shut off at night.

Q. What is the effect of adding heat to a composition of that character?

A. To speed up the drying and to hasten the evaporation of the volatile solvent.

Q. In other words, if you do not use heat it dries out slowly?

A. It dries out a little more slowly.

Q. Coming over to this Pierson patent, do you find disclosed in that Pierson—

Mr. Miller: Q. Do you find in that Pierson patent any "doughy, putty-like, plastic composition" made

(Testimony of Dr. Gustavus J. Esselen—rebuttal—cross.)

up of nitro-cellulose in a solution” containing a volatile liquid “and a finely-divided cellulose filler in such proportions as to harden upon mere exposure to air to substantially the rigidity and solidity of wood?”

A. No.

Q. Do you find in that Pierson patent, referring to the composition he sets up for the filling, where he takes one part nitro-cellulose, four parts alcohol, four parts ether, and one to sixteen parts of saw-dust?

A. I understand you to say a composition described as having the consistency of putty before drying out and after such drying out forming a mass resembling wood. There is no such suggestion in the patent.

Q. He is going to make up a material for moulding, isn't he?

A. He says he is making it for mouldings which I *present* to be, as of the date of this patent, 1867, picture mouldings. [284]

Q. Do you find in the Pierson patent any composition which is doughy, composing nitro-cellulose in solution, containing a “volatile liquid and a finely-divided cellulose filler in such proportions as to harden upon mere exposure to air to substantially the rigidity and solidity of wood?”

A. I do not find a description of such a material as Mr. Webb has showed us. If you experi-

(Testimony of Dr. Gustavus J. Esselen—rebuttal—cross.)

ment sufficiently you can find that there is such a mixture within these rather wide limits of “one to sixteen” parts of filler, but there is no specific suggestion of any such compound or mixture in here.

Q. Wouldn't your common sense tell you to mix up the nitro-cellulose with a volatile liquid and celluloid and add enough sawdust until you have got it of the consistency of dough, so you could mould with it?

A. He doesn't suggest that.

Q. He says you are going to make a moulding compound.

A. Not as I read it. He says it is *useful* stauary or mouldings. That may possibly imply that the statuary is to be moulding. It may be you make up a mass and carve a statue.

Q. In either case it would be a dough-like composition, wouldn't it?

A. Why, it may be or it might be something else.

Q. How would it compare with Griffiths, when Griffiths varies his regime?

A. In the Griffiths patent he specifically describes a material, the properties of which have been outlined here several times, but essentially it comprises nitro-cellulose in a volatile solvent, with a cellulose filler, of such consistency that it is putty-like before it is used, and when it dries down it dries down to the consistency of wood, and there is

(Testimony of Dr. Gustavus J. Esselen—rebuttal—cross.)

absolutely no suggestion of such a concept anywhere in the Pierson patent. [285]

Q. Referring back to the Griffiths patent, he says in lines 58 to 63: “The proportion of weight of filler to weight of solution I prefer to lie between 15 and 30 parts of filler to 85 and 70 parts of solution. On the other hand proportions outside these limits may be employed.” Now suppose we have a composition according to Griffiths in which he has his filler here, instead of 30 parts, which is the upper limit, he goes outside and goes up to 40. How would that composition compare with Pierson?

A. That all depends on what the filler is. You will notice Mr. Griffiths, in his example on page 2, uses 40 parts of filler, where he uses a mixture of wood flour and china clay and that is obviously what he had in his mind when he said: “On the other hand, proportions outside these limits may be employed.” Where he says, “15 to 30 parts” he is referring to wood flour filler and that gives the best results, I know from experiments, just as Mr. Griffiths says it does.

Q. You would not consider a wood dough that had only ten parts of filler as being satisfactory, would you?

A. It is quite satisfactory for many purposes because the proportion of wood filler to the mineral filler is *to* adjusted in the Wood Dough that the volume relationship in the Wood Dough is very

(Testimony of Dr. Gustavus J. Esselen—rebuttal—
cross.)

close to the volume relationship in the Plastic Wood.

Q. How about that relationship between the mineral filler and the wood dough filler in the Griffiths patent? I understand from you that if you increase the proportion of filler to 40 or 50 or even 60 parts, that that was the “between 15 and 30 parts of wood, the balance filler,” is that correct?

A. That is now what he says.

Q. Isn't that the way I understood it a few minutes ago?

A. When he says “between 15 and 30 parts of filler” he is referring to a composition in which the filler is entirely [286] wood flour.

Q. Well, you do find in the Pierson patent, don't you, a composition composed of nitro-cellulose in a solution containing a volatile liquid and a finely-divided cellulose filler?

A. Yes, without any proportions or other suggestions given.

Q. And you find that in the Pierson patent when he uses his basis of two parts of sawdust in his mixture, in paragraph 40 that the filler is present in more than fifteen parts by weight?

A. If he uses more than two parts?

Q. Yes.

A. Yes.

Q. Anything above that would give him more than fifteen parts by weight?

A. That is right. Of course if he uses only one

(Testimony of Dr. Gustavus J. Esselen—rebuttal—cross.)

part you would have considerably less, and he says you may go up to sixteen parts.

Q. If he uses only one part that would give you 10% filler?

A. Yes, that would give you 10% filler.

Q. Which is about the same quantity that the Wood Dough has, isn't that correct?

A. No, Wood Dough has altogether, if I remember, 40 parts of filler.

Q. Well, they have ten parts of wood filler, don't they?

A. As I remember, it is 10 or 11, as stated in your answer.

Q. And how about this Oblasser patent? Do you find in that patent wherein he makes up a composition, an agglomerate, don't you find presented there a composition of nitro-cellulose in a solution containing a volatile liquid and a finely-divided cellulose filler? [287]

A. That is a patent for an adhesive cement or an impermeable coating, if I remember it.

Q. It is plastic, isn't it?

A. He advises it, as I judge, for sticking articles together, such as wood, or for covering them over with an impermeable layer, which implies a viscous liquid to apply to the cloth, because it says the mixture is usually made, while cold, by simple agitation. That means simple agitation or stirring, and if it were a paste it would require more than that.

(Testimony of Dr. Gustavus J. Esselen—rebuttal—
cross.)

Q. Line 19.

A. In the complete specifications?

Q. Yes.

A. Yes.

Q. When he refers to a "paste-gum" that would indicate a plastic, would it not, a plastic like library paste?

A. Or LePage's glue.

Q. It indicates plastic, and he has presented there a nitro-cellulose in a solution containing a volatile liquid and a finely-divided cellulose filler, hasn't he?

A. That is true, but he hasn't in any way suggested any material such as is here suggested by Mr. Griffiths.

Q. Now, do I understand you that all compositions made up of nitro-cellulose in a solution containing a volatile liquid and a finely-divided cellulose filler will not work or are unsuitable for this purpose?

A. All compositions?

Q. Yes.

A. Yes.

Q. All of them are not?

A. All of them are not.

Q. Just some of them are?

A. Right. [288]

Q. Are all plastic compositions containing nitro-cellulose in a solution containing a volatile liquid and a finely-divided cellulose filler suitable?

(Testimony of Dr. Gustavus J. Esselen—rebuttal—
cross.)

A. To a certain degree, yes.

Q. Within what degree? Can you explain that a little more in detail?

A. To put in the limitations of plastic.

Q. Yes.

A. Well, if you have too small a proportion of wood flour the thing will obviously shrink too much when it dries, but it could be used—I mean shrink too much for practical purposes.

Q. Well, all doughy, putty-like plastic compositions comprising nitro-cellulose in a solution containing a volatile liquid and a finely-divided cellulose filler in such proportions as to harden upon mere exposure to the air to substantially the hardness and rigidity of wood, would be suitable?

A. Yes, a mixture having those qualities would be suitable.

Q. And what would these proportions be?

The Court: You have taken your time.

Mr. Dike: No redirect.

Mr. Dike: I now offer in evidence the interrogatories and answers of Manfred E. Griffiths and Ernest Caizley Murray, which were taken on a *dedimus potestatum* issued by this Court, and they have been returned to the Court. It is my understanding these were taken subject to objections as

(Interrogatories for Manfred E. Griffiths—direct.)
to their admissibility and I think the whole thing depends on this question of the right to carry back the date of invention to an invention made abroad and not in the United States. That [289] is solely a question of law which I will deal with in my brief, and I suggest, if your Honor please, that the rulings on these two matters be cared for in your Honor's opinion.

Mr. Miller: That is perfectly satisfactory, if the opposing counsel wishes to propose two questions of law. That is my main objection to this Griffiths and Murray deposition; it is perfectly agreeable to handle that matter in the brief.

The Court: That is satisfactory to the Court.

The interrogatories and answers referred to read as follows:

Interrogatories for

MANFRED E. GRIFFITHS

Q1. Please state your name, age, residence, and occupation? What was your education?

A1. Manfred E. Griffiths, 57 years of age, residence: Hackneys Corner, Claydon, near Ipswich, Technical Adviser. Education: Manchester Technical College and articled pupil to an analytical and consulting chemist.

Q2. By whom are you now employed and in what capacity?

A2. By Nobel Chemical Finishes Limited in the capacity of Technical Adviser.

(Interrogatories for Manfred E. Griffiths—direct.)

Q3. How long have you been employed by Nobel Chemical Finishes Ltd., and its predecessors? During what years? Name the predecessors of Nobel Chemical Finishes Ltd., from 1918 to date.

A3. I have been employed for 35 years, 1900 to 1935. The predecessors were Nacol Industrial Colloidions Limited and the New Explosives Company Limited.

Q4. Where does Nobel Chemical Finishes Ltd., have its factory and laboratory? At which factory are you employed?

A4. Nobel Chemical Finishes Factory and Laboratory is at Stowmarket. I am employed at Stowmarket Factory. [290]

Q5. Is Nobel Chemical Finishes Ltd., a subsidiary of some other company and, if so, of what company?

A5. Nobel Chemical Finishes Limited is a subsidiary company of Imperial Chemical Industries.

Q6. Where is the home office of Imperial Chemical Industries Ltd.?

A6. Millbank, London.

Q7. Are you the Manfred E. Griffiths who is the patentee of United States letters patent No. 1,838,618 for Plastic Composition, issued December 29, 1931 on an application filed November 17, 1923?

A7. Yes.

Q8. Did you take out any letters patent in Great Britain for the plastic composition described

(Interrogatories for Manfred E. Griffiths—direct.)
and claimed in said U. S. letters patent No.
1,838,618?

A8. No.

Q9. By what name, if any, do you commonly
call the plastic composition described and claimed
in your United States patent No. 1,838,618?

A9. Plastic Wood.

Q10. Please state in full and substantial detail
the circumstances relating to the discovery of the
plastic composition described and claimed in said
patent No. 1,838,618, giving the dates of the occur-
rences which you describe. How did you come to
make the experiments leading to this discovery?

A10. In response to an enquiry for a stopping
material for shoe lasts, development work was car-
ried out in the early part of 1919 in the Industrial
Nitrocellulose Laboratory of the New Explosives
Company at Stowmarket. Part of the work of the
Industrial Nitrocellulose Laboratory consisted of
the preparation of special compositions for particu-
lar industrial application and the enquiry in ques-
tion was dealt with in the normal routine of [291]
the laboratory. Work was continued until the end of
1919 when a composition was produced similar to
that described in lines 12 to 27 of the U. S. Patent
1,838,618. Modifications were also prepared within
the limits given in lines 50 to 60 of U. S. Patent
1,838,618.

Q11. By whom were you employed at the time
you made the said invention; and in what capacity?

(Interrogatories for Manfred E. Griffiths—direct.)

A11. Employed by the New Explosives Company Limited in the capacity of Chemist.

Q12. When was the first specimen of the plastic composition such as that described and claimed in your United States patent No. 1,838,618, made up?

A12. A plastic composition the same as that described in lines 12 to 27 of U. S. Patent 1,838,618 was made up at the end of the year 1919.

Q13. State each of the ingredients and the proportions or amounts of each ingredient employed by you in making the first complete and satisfactory specimen of said plastic composition. What procedure was adopted to harden the material?

A13. The first complete and satisfactory specimen of plastic wood was made to the following composition:

- 17 parts by weight of Celluloid Scrap
- 4.5 “ “ “ “ Castor Oil
- 8.5 “ “ “ “ Ester Gum
- 10 “ “ “ “ Industrial Spirit
- 30 “ “ “ “ Benzol
- 30 “ “ “ “ Acetone

77 parts by weight of this solution being mixed with 23 parts by weight of finely ground wood flour. The composition was hardened by exposure to the air.

Q14. After making up said sample, did you or did you not test it to determine its usefulness? What conclusion did you come to as to its usefulness?

A14. The composition was tested and found to possess considerable strength and power of ad-

(Interrogatories for Manfred E. Griffiths—direct.)
hesion. In addition to being [292] tried out as a stopper for shoe lasts it was practically tested for filleting and building up engineers' patterns.

Q15. What was the condition of the said material before drying, and what was its condition and characteristics after drying?

A15. Before drying the composition was a plastic mass, capable of being readily moulded or spread and after drying it showed many of the characteristics of wood.

Q16. Have you any contemporaneous notebooks or laboratory records showing your experiments in the making of this plastic composition? If so, please produce them, and attach to this deposition a photostatic copy of the same.

A16. I have laboratory records showing experiments carried out in the making of plastic compositions known as plastic wood and I now produce and put in as an exhibit photostatic copies of relevant pages.

(The photostatic copies produced by the witness were marked by the Commissioner as plaintiff's Exhibit No. 1, and are forwarded as physical exhibits.)

Q17. Please read from your notebook any records relating to the plastic composition described and claimed in your United States patent No. 1,838,618.

A17. I have extracted the records relating to the plastic composition described in my U. S. Patent

(Interrogatories for Manfred E. Griffiths—direct.)
1,838,618 from my note book, and I now produce the extract and put it in as Exhibit No. 2.

(The extract produced by the witness was marked by the Commissioner as plaintiff's Exhibit No. 2, and is forwarded as a physical exhibit.)

Q18. What are the experiment numbers relating to formulae for the plastic composition described and claimed in said patent?

A18. The numbers relating to the experimental plastic [293] formulae of which we have records are 1663 and 1667, the number 1674 applies to the composition given in lines 12 to 27 of U. S. Patent 1,838,618.

Q19. When were these experiments made? How do you fix the dates when these experiments were made? Read any entries in these or any other records which help you to fix the dates. Attach to this deposition a photostatic copy of any such entries.

A19. The laboratory diary contains the number 1632 under the date 6th of August 1919, so that experiment number 1663 would have been about a month later than experiment number 1632. I put in photostatic copies of the entries in the laboratory diary and note book referred to in my answer to this question.

(The photostatic copies produced by the witness were marked by the Commissioner as plaintiff's Exhibit No. 3, and are forwarded as a physical exhibit.)

Q20. Explain how these entries fix the dates of the experiments to which you refer?

(Interrogatories for Manfred E. Griffiths—direct.)

A20. The number 1932 in the diary for August 6th, 1919 indicates that the number 1663 must have been allocated soon after August the 6th, 1919.

Q21. Did you disclose your said invention to any one at or about the time when you made it? If so, to whom and when?

A21. Mr. Murray and other assistants in the laboratory would be acquainted with the composition, but any information of this kind would be treated as confidential in accordance with Service Agreement. The Service Agreements in operation at the period in question bound employees to keep secret any information obtained during their service with the company.

Q22. Did you at any time disclose your invention to [294] the head office of your employers? If so, produce any writing by which you made said disclosure; and attach a photostatic copy of the same to the deposition. When was this disclosure made?

A22. Particulars of the composition of Plastic Wood must have been sent to the Head Office of the Company about the end of the year 1919. No records are available.

Q23. Have you or your employers ever manufactured or sold any of the plastic composition described and claimed in United States patent No. 1,838,618? If so, since when?

A23. Sales of Plastic Wood commenced in Great Britain in 1920 and have continued ever since.

(Interrogatories for Manfred E. Griffiths—direct.)

Q24. What was the formula of all or most of the plastic compositions manufactured and sold prior to December 9, 1921?

A24. As described in lines 12 to 27 in U. S. Patent 1,838,618.

Q25. Did the plastic composition manufactured prior to Dec. 9, 1921 consist of nitrocellulose in a solution containing a volatile liquid and a finely divided cellulose filler in such proportions as to harden upon mere exposure to air to substantially the rigidity and solidity of wood?

A25. Yes.

Q26. Did you or did you not ever abandon the said invention between the time it was made in 1919 and November 17, 1923; the filing date of your United States patent application?

A26. No.

Q27. Was the formula for your plastic composition described in your United States patent ever published in the United Kingdom prior to November 17, 1923, the filing date of your application for United States letters patent?

A27. No.

Q28. Did you or did you not keep the ingredients, their proportions, and the nature of said plastic composition secret [295] from the public prior to November 17, 1923?

A28. Yes. The composition was kept secret.

Q29. Look at the photostatic copy of the article contained in "Engineering" dated December 9, 1921,

(Interrogatories for Manfred E. Griffiths—direct.) page 785, the paragraph entitled “Plastic Wood” and state what, if anything, you had to do with the contents of said article?

A29. I have read the article entitled “Plastic Wood” contained in “Engineering” dated December 9th, 1921, Page 785, a photostatic copy of which is now produced to me by the Commissioner and identified by me and I say: that the Article was published after a discussion between Mr. Carter, the Works Manager and Chief Engineer of the New Explosives Company and myself as to the scope and type of information to be given in the article.

Q30. Relate briefly the circumstances attending the furnishing of the information for the article.

A30. I have already related the circumstances attending the furnishing of the information for the Article in my answer to Question No. 29, but I may mention that the object of the Article was to secure publicity for Plastic Wood.

Q31. Please place your initials on the copy of the page from “Engineering” you have just identified.

A31. I have initialled the said copy of the page from “Engineering” which I have just identified, as required.

Q32. Look at the photostatic copy of the article contained in “The Engineer” dated March 3, 1922, and entitled “Plastic Wood”, and state what, if anything, you had to do with the contents of said article?

(Interrogatories for Manfred E. Griffiths—direct.)

A32. I have read the Article entitled "Plastic Wood" contained in "The Engineer" dated March 3rd, 1922, a photostatic copy of which is now produced to me by the Commissioner and identified by me, and I say: that I discussed with Mr. Carter the scope and [296] type of information to be given, but I am not sure whether or not the representative of "The Engineer" was present during part of the discussion.

Q33. Relate briefly the circumstances attending the furnishing of the information for the article.

A33. The Article deals chiefly with a general account of the Stowmarket factory, and Mr. Carter either conducted "The Engineer" representatives around the factory or supplied him with the information dealing with the general work of the factory and particulars regarding Plastic Wood.

Q34. Please place your initials on the copy of the page from "The Engineer" you have just identified.

A34. I have initialled the said copy of the page from "The Engineer" which I have just identified, as required.

Q35. Do you know of anything concerning the material in question that may tend to the benefit and advantage of the plaintiff? If so, declare the same fully and at large as if you had been particularly interrogated concerning the same.

A35. No.

Cross Examination

XQ1. If your answer to plaintiff's interrogatory 8 is in the affirmative, give the name and date

(Interrogatories for Manfred E. Griffiths—cross.)
of your British patent and supply a true and correct copy thereof.

A. No British patent has been taken out.

XQ2. Did you, or anyone on your behalf, attempt to secure a patent on your plastic composition in Great Britain?

A. No attempt has been made to secure a patent in Great Britain.

XQ3. If you did attempt to secure a patent on your plastic composition in Great Britain, what was done and what were the results? [297]

A. No attempt was made to secure a patent in Great Britain.

XQ4. If you did not attempt to secure a patent upon your plastic composition in Great Britain, why was no such attempt made?

A. The question of British Patent for Plastic Wood was considered by the Board and the Technical Adviser of the New Explosives Company Limited and it was decided not to take out patent. I have no knowledge of the reason for the Board's decision.

XQ5. If your answer to plaintiff's interrogatory 28 is in the affirmative, what was the object of keeping your plastic composition a secret without attempting to secure a patent thereon in Great Britain?

A. It was the usual practice in the New Explosives Company's laboratory to keep all formulas secret.

(Interrogatories for Manfred E. Griffiths—cross.)

XQ6. If your answer to plaintiff's interrogatory 28 is in the affirmative and you state that you had anything to do with the contents of the article mentioned in plaintiff's interrogatory 29, when did the secrecy of your invention from the public stop?

A. Secrecy has been maintained since Plastic Wood was first made. The Article in "Engineering" gives no details of composition.

XQ7. State the date and circumstances under which the nature of your plastic composition first became known to the public.

A. No knowledge of exact date. It was supplied to the shoe trade for repairing shoe lasts toward the end of 1920, but no information regarding the composition of Plastic Wood was made known until the publication of the U. S. patent.

XQ8. At the time of making the discovery of your plastic composition referred to in plaintiff's interrogatory 10, had you had any previous knowledge of the attempts of others to produce plastic wood; if so, give full information as to what previous [298] knowledge you had had.

A. Shoe lasts repaired with an organic filling material were brought to our notice before we attempted to make Plastic Wood. We were unaware of the composition of this organic filling material, but decided that a product having similar properties could be made with nitrocellulose as a binder and a finely divided cellulose as a filler.

XQ9. In your plastic composition is the presence of a non-drying oil essential to produce the desired

(Interrogatories for Manfred E. Griffiths—cross.)
results or can the non-drying oil be entirely omitted?

A. If the non-drying oil is omitted the properties of the Plastic Wood are altered.

XQ10. In your plastic composition is the presence of resin essential or may the resin be omitted and the desired results be obtained?

A. If the resin is omitted the properties of the Plastic Wood are altered.

XQ11. In your patent specification you refer to celluloid scrap as a source for nitrocellulose; did such celluloid scrap contain camphor? If so, was the presence of camphor objectionable?

A. The cellulous scrap used in the preparation of Plastic Wood contains camphor. The presence of camphor is not objectionable.

XQ12. If any of the ingredients of the plastic composition described in your patent can be omitted and satisfactory results be obtained, state which ingredients can be so omitted.

A. If any of the ingredients of Plastic Wood are omitted the properties are altered.

XQ13. Can the quantities of the ingredients mentioned in your United States Letters Patent be changed from the quantities listed therein and a satisfactory plastic composition be produced [299] which will produce substantially the same results when used for the same purpose? If the quantities can be varied, state within what limits for each ingredient.

(Interrogatories for Manfred E. Griffiths—cross.)

A. The quantities of the ingredients can be varied from the composition given in lines 12 to 27 in the patent and substantially the same results obtained, provided that the proportion of nitrocellulose oil and resin to wood flour is such as to give the final product the requisite strength and the proportion solvent sufficient to ensure a putty-like consistency.

XQ14. Did you ever learn of the practice on aviation fields during the World War of mixing "wing dope"—a composition used for applying coatings to airplane wing surfaces—with finely ground wood to form a repair composition similar to plastic wood? If you did learn of such practice, in what respects did your composition differ from the composition formed in this practice?

A. I have heard of the practice of mixing aeroplane dope and sawdust to form a repair composition, but I had no knowledge of this practice at the time Plastic Wood was invented. I have no knowledge of the properties of the mixture of dope and sawdust.

XQ15. If someone, such as the defendant in this case, should make a composition by treating cellulose with nitric or sulphuric acid with or without the addition of from 10 to 40% of camphor and dissolving the product thus obtained in a solvent such as acetone and mixing with this material sawdust, cork waste, or cork powder, to form a paste, and should use this material as a molding composition, in what

(Interrogatories for Manfred E. Griffiths—cross.) respects would this differ, if any, from the making and using of your plastic composition.

A. The particulars given are not sufficiently explicit to enable an opinion to be formed as to the properties of such a composition. Nitration particulars for the cellulose [300] are inadequate and no proportions or ingredients are given.

XQ16. If someone, such as the defendant in this action, should immerse cotton fibre in nitric acid or a mixture of nitric and sulphur acids, then wash out the acids with water and submit the product of this treatment to the action of ether to fit it for combination with other substances, and then add to this product sawdust, straw, or any vegetable powder or fibre and a quantity of oil and use such composition for statuary and moldings, in what respects, if any, would this differ from the making of your plastic composition and using it for its normal purpose?

A. The particulars given are not sufficient. The nitration particulars are indefinite and no proportions are given.

XQ17. If someone, such as the defendant in this action, should make a composition by mixing a solution of pyroxylin with ground cork and asbestos fibre and other fibre material, in what respects, if any, would such composition differ from your composition?

A. Particulars are insufficient. No information is given regarding the type or strength of the pyroxylin solution and no proportions are given.

(Interrogatories for Manfred E. Griffiths—cross.)

XQ18. If someone, such as the defendant in this action, should make a plastic composition by mixing a solution of pyroxylin with finely divided wood, in what respects, if any, would such composition differ from your composition?

A. The answer is exactly the same as 17.

XQ19. If someone, such as the defendant, should make a composition by mixing 60% nitrocellulose, 20% camphor, and 20% of a chloral ($C_2H Cl_3O$) derivative of castor oil and introduce wood flour and suitable solvent, such as acetone, in what respects, if any, would this composition differ from your plastic composition? [301]

A. Proportions given are not sufficient to enable an opinion to be given without considerable experimentation.

XQ20. If someone, such as the defendant in this case, should make a plastic composition by taking 100 grams of powdered cork, moistening it with alcohol, and a mixture made up of boiled linseed oil (about 5 grams) and a few cubic centimeters of crystallizable acetic acid, then add 20 grams of collodion; the collodion having the following formula: guncotton 5 grams, com ether 75 grams, alcohol 20 grams, boiled linseed oil 2 grams; then thoroughly mix these ingredients, triturate and knead them until the whole of the mass has assumed the form of paste of such consistency as to be kneadable with difficulty, state in what respects, if any, this composition would differ from your composition?

(Interrogatories for Manfred E. Griffiths—cross.)

A. This composition would be much stiffer than Plastic Wood and could not be used in the same manner.

XQ21. If the composition mentioned in the preceding interrogatory were allowed to dry in a mold in a current of air for a number of hours and then subjected to pressure, how would the composition obtained differ from your hardened plastic wood.

A. Considerable experimental work would have to be carried out before this question could be answered.

XQ22. What is the effect of subjecting your plastic composition to heat or pressure during the drying or hardening as compared with your composition when it is allowed to dry or harden in the absence of heat or pressure?

A. If Plastic Wood is subjected to heat during drying, the surface hardens. The solvent vapour cannot escape freely and the mass expands leaving a porous centre. I have not tried the effect of drying under pressure and I cannot say what effect drying under pressure would have on the properties of Plastic Wood. [302]

XQ23. If someone, such as the defendant, should make a plastic composition by taking 100 grams of powdered cork or finely divided wood, mixing it with 20 grams of celluloid in solution in acetone, and adding about 5 grams of boiled linseed oil, in what respects, if any, would the composition thus obtained differ from your composition?

(Interrogatories for Manfred E. Griffiths—cross.)

A. This composition would lack the adhesive properties of Plastic Wood and in the hardened form would be more friable than Plastic Wood.

XQ24. If someone, such as the defendant in this case, should make a composition by making a paste-gum obtained by means of celluloid dissolved in a solvent, such as acetone, with the addition of other substances, such as resins, oils, gums, vegetable, mineral or animal powder, in what respects, if any, would this composition differ from your composition?

A. Proportions are not given and it is impossible to express an opinion as to the properties of such composition.

XQ25. If someone, such as the defendant, should make a composition consisting of equal parts of celluloid or nitro-cellulose with disintegrated or pulverized cork and disintegrated or pulverized india rubber, the whole being mixed together with the addition of a suitable solvent, such as acetone, the latter being added in such quantity that the composition forms a thickly liquid solution, in what respects if any, would this composition differ from your composition?

A. Particulars of proportions are not sufficient to enable the properties of this composition to be accurately judged, but I should expect such a composition to lack the tenacity and adhesive properties of Plastic Wood.

XQ26. If someone, such as the defendant, should make a composition with the following ingredients:

(Interrogatories for Manfred E. Griffiths—cross.)
soluble cellulose 20%, palmoil, castor oil, glycerin, or other suitable oil 5%, [303] phosphate of lime 15%, bone dust, sawdust, or other powdered material 30%, sundry pigments, such as magnesia, baryta, zinc oxide, alumina 15%, gum 5%; in what respects, if any, would this composition differ from your composition? If this composition above mentioned were subjected to heat and pressure, how would the product obtained differ from the product obtained by your composition where the composition is allowed to dry or harden in the absence of heat and pressure?

A. The term "Soluble Cellulose" is too vague to enable an opinion to be expressed on the properties of such a composition. I should expect a mixture of this kind to be much stiffer than plastic wood and unsuitable for use in the same manner as Plastic Wood.

XQ27. If someone, such as the defendant, should take cork, sawdust or chopped cork, which is kneaded, and mix it with nitrocellulose dissolved in acetone, would this solvent be so volatile that operations conducted therewith would have to be performed faster than with your composition so that it would not solidify before the operations were completed?

A. This would depend on the proportions of sawdust or chopped cork to nitrocellulose dissolved in acetone.

XQ28. If someone should make a composition having the following ingredients: 350 parts nitro-

(Interrogatories for Manfred E. Griffiths—cross.)
cellulose containing 100 parts of water, 140 parts of phosphoric acid tri-ortho-cresyl-ester, 140 parts of secondary xylidine, that is to say, alkyl or arylxylidine C_6H_3 (CH_3) NRR , 300 parts of cork or sawdust, 100 parts of mineral coloring meal, 50 parts chalk, and these ingredients are kneaded at a temperature of about $75^\circ F.$ in a vacuum until the whole of the water is removed: would this composition be similar to or different from your composition, and if different, in what respects?

A. This composition would be stiffer than Plastic Wood [304] and could not be manipulated in the same way.

XQ29. In your composition, is the function of the castor oil anything other than to fortify the vegetable oil inherently present in the wood filler and to act as a plasticizer for the nitrocellulose? If so, please state any additional functions.

A. The function of the castor oil is to reduce brittleness of the hardened mass, and to help the working properties of the wet material. Castor oil does not act as a plasticizer for the nitrocellulose.

XQ30. In your plastic composition, is the function of the resin any other than to fortify the resin inherently present in the wood filler and to increase the adhesiveness of the composition? If so, please state the additional functions.

A. The resin increases the cohesiveness of the dry mass and increases the adhesion of the Plastic Wood to other materials.

(Interrogatories for Manfred E. Griffiths—cross.)

XQ31. Prior to November 17, 1921, what uses did you or anyone associated with you make of plastic composition which either embodied the invention in your United States Letters Patent No. 1,838,618 or which led up to the development of this invention?

A. Plastic Wood was used for repairing shoe lasts and for use in making up and repairing engineers' patterns.

XQ32. Prior to November 17, 1921, were any of your plastic compositions embodying or pertaining to the disclosure in your United States Letters Patent No. 1,838,618 sold? If so, give the formula of the composition so sold. Were any of them sold in the United States? If so, when, and to whom?

A. Prior to November 1921 Plastic Wood was sold in Great Britain. The composition of the material sold was the same as that described in U. S. Patent No. 1,838,618, lines 12 to 27. Such information as I have leads me to believe that no Plastic Wood was sold in the United States prior to November 17th, 1921.

XQ33. Prior to November 17, 1921, were any of your [305] plastic composition embodying or pertaining to the invention in your United States Letters Patent No. 1,838,618 publicly used? If so, when, where, and for what purpose? Were any of them used in the United States? If so, when, where, and for what purpose?

A. Prior to November 1921 Plastic Wood of similar composition to that mentioned in lines 12

(Interrogatories for Manfred E. Griffiths—cross.)
to 27 of U. S. Patent No. 1,838,618 was sold and used in Great Britain for repairing shoe lasts and engineers' patterns. I have no knowledge of any Plastic Wood being used in the United States prior to November 17th, 1921.

XQ34. Were any of your plastic compositions containing nitrocellulose dissolved in solvent and mixed with finely divided cellulose material described in any printed publication prior to November 17, 1921. If so, give the names of such publications, their dates of publication, the names and addresses of the publishers, the pages of the publications where such description or mention occurs, and supply, if possible, copies of such pages.

A. Plastic Wood of the composition given in U. S. patent No. 1,838,618 lines 12 to 27 was described in a pamphlet entitled "Necol for the Leather Trade", (Page 11), issued by the New Explosives Company Limited in September 1920. This company was later known as Necol Industrial Colodions Limited. This pamphlet refers to properties and use of Plastic Wood, but does not disclose the invention as it does not give ingredients or proportions. I have only one copy of this pamphlet available which belongs to Nobel Chemical Finishes Limited but I produce to the Commissioner and put in as an exhibit a photostatic copy of the Preface to the said pamphlet and of the article therein dealing with "Necol" Plastic Wood.

(Interrogatories for Manfred E. Griffiths—cross.)

(The photostatic copy produced by the witness were marked by the Commissioner as Exhibit No. 4, and is forwarded as [306] a physical exhibit.)

XQ35. What was the date of your first introduction of your plastic composition into the United States? State how your invention was first introduced into the United States.

A. I don't know the exact date of the first introduction of Plastic Wood into the United States. I believe it was in September 1923 introduced by C. E. Tennant & Sons.

XQ36. When did you abandon any attempt to secure a British patent on your plastic composition and what was the reason therefor?

A. I cannot answer this question as I have never made an attempt to secure British patent.

XQ37. If there is any difference between the formula stated by you in answer to plaintiff's interrogatory 24 and the composition described in your United States Letters Patent No. 1,838,618, when and why were the changes made?

A. There is no difference, it refers to the same material.

XQ38. In what respects, if any, does the plastic composition described in your United States Letters Patent No. 1,838,618 differ from the composition described on page 785 of the "Engineering" issue of December 9, 1921?

A. The composition in "Engineering" of December 9th, 1921 is the same as the composition described in U. S. patent 1,838,618 lines 12 to 27.

(Interrogatories for Manfred E. Griffiths—cross.)

XQ39. If you had anything to do with the furnishing of information for the article in "Engineering" dated December 9, 1921, page 785, entitled "Plastic Wood", when did you supply this information? Did you give this information with the intention that it be published; if so, when did you expect it to be published?

A. The information for the article on Plastic Wood in [307] "Engineering" December 9th, 1921, was supplied shortly before that day on the understanding that it was to be published immediately.

XQ40. If you gave such information to the "Engineering" or caused it to be given for purposes of publication in the "Engineering", did you not expect the information therein contained to be given freely to the public or readers of "Engineering" (a) without any compensation to you, (b) without any acknowledgment that you were the inventor thereof, (c) without any expectation of securing a monopoly thereon, (d) without any expectation of securing any further remuneration?

A. It was intended that the article in "Engineering" should give information to the public regarding the properties of Plastic Wood. The article does not disclose any particulars of ingredients or proportions which would enable a composition similar to *plaswood* to be prepared, but only a general statement, as to certain ingredients and properties. The question of compensation, acknowledgment or remuneration was not of interest to me as Plastic

(Interrogatories for Manfred E. Griffiths—cross.)
Wood was the property of the New Explosives Company Limited.

XQ41. If you know the date of first publication of the issue of December 9, 1921, of "Engineering", give this date.

A. Not known.

XQ42. In what respects, if any, does the composition described in your United States Letters Patent No. 1,838,618 differ from the disclosure made in "The Engineer" for March 3, 1922, a page of which is attached to plaintiff's interrogatories?

A. The article in the "Engineer" for March 3rd, 1922 does not disclose any particulars of ingredients or proportions which would enable a composition similar to that described in U. S. patent 1,838,618, lines 12 to 27 to be prepared.

XQ43. If there are any differences between your composition as described in your patent and the disclosures made in [308] "The Engineer" and in "Engineering", when and why were the changes made?

A. The disclosures made in "The Engineer" and in "Engineering" refer to the same composition as described in the U. S. patent, but the articles in "The Engineer" and "Engineering" do not give details of ingredients or proportions which would enable a composition similar to Plastic Wood to be made up.

XQ44. Have you or your employers ever manufactured or sold any plastic compositions that could be used for the purposes of plastic wood in the

(Interrogatories for Manfred E. Griffiths—cross.)
United States prior to November 17, 1923. If so, state the formula of such composition, the date or dates of sale, and the name and address of the person or persons to whom the sale was made.

A. I have no knowledge of any sales of a plastic composition in the U. S. prior to November 17, 1917.

XQ45. How many different plastic compositions similar to plastic wood did you make between 1919 and November 1923? Give the formula of each of such compositions.

A. There are eleven different plastic compositions similar to Plastic Wood made by New Explosives Company Limited between 1919 and November 1923, the formulas are contained in a list which I now produce to the Commissioner and put in as an exhibit. The eleven compositions contained in the said list were prepared and tried out for various purposes during the period mentioned.

(The list produced by the witness was marked by the Commissioner as Exhibit No. 5, and is forwarded as a physical exhibit.)

XQ46. Which of these compositions did you abandon? Why did you abandon it or them? Were the formulae of any of these compositions published prior to November 17, 1923? If so, give the date of the publication, the name of the publication, [309] the pages thereof, the name and address of the publishers, and the pages of the publication where the formula appears.

A. None of the compositions mentioned in 45 were put into practical use. None of the formulae of

(Interrogatories for Manfred E. Griffiths—cross.) these compositions were published. They were not definitely abandoned but were kept in reserve for use should occasion require.

XQ47. When did you first learn that a United States patent might be obtained upon your invention?

A. I am not aware of the date when the question of a U. S. patent was first considered.

XQ48. Prior to learning that a United States patent might be obtained upon your invention, had you not abandoned the invention to the public of Great Britain? If not, why did you not attempt to secure a British patent upon it?

A. No. The Company's policy was to keep the invention secret as far as Great Britain was concerned.

XQ49. State the circumstances under which you were induced to obtain a United States patent although no British patent was obtained upon your invention.

A. The U. S. patent was obtained at the request of Messrs. C. Tennant & Sons of New York.

XQ50. What effect does the application of heat and pressure have upon your composition while drying and hardening?

A. I have not carried out experiments on the effect of heat and pressure on plastic wood whilst drying and hardening. Heat alone causes the plastic wood to dry on the surface and prevents the escape of solvent vapour, thus producing cavities in the centre of the mass.

(Interrogatories for Manfred E. Griffiths—cross.)

XQ51. In the course of the prosecution of your application before the United States Patent Office Gustavus J. Esselen executed an affidavit on the 14th day of January, 1931, including the following statement: [310]

“Furthermore, it would be obvious to anyone familiar with these matters that using only such amounts of gum and oil as naturally occur in wood flour would tend to give the product slightly less toughness and less adhesion than one in which these components were reinforced with added gum and oil, but one which in all essential properties would be fundamentally the same.”

Do you agree with this statement? If not, why not?

A. I agree with Mr. Esselen's statement.

XQ52. Prior to November 17, 1922, what other fillers had you used, if any, besides wood flour, in your composition? Which of these other fillers produced satisfactory results?

A. A variety of fillers were tried out on plastic wood. We have records of the following: leather dust, starch, plaster of paris, kaolin, but none of these fillers produced results for general purposes equal to wood flour.

XQ53. Do you know of anything concerning the material in question that may tend to the benefit and advantage of the defendant and intervener? If so, declare the same fully at large as if you had been particularly interrogated concerning the same.

A. No.

Interrogatories for
ERNEST CAIZLEY MURRAY

Q1. Please state your name, age, residence and occupation.

A. Ernest Caizley Murray, age 39, address 115 Western Road, Leigh-on-Sea, service representative.

Q2. By whom are you now employed and in what capacity?

A. Nobel Chemical Finishes Limited, Slough, servicing motor car manufacturers. [311]

Q3. How long have you been employed by Nobel Chemical Finishes Ltd., and its predecessors? During what years?

A. 25 years, 1910-1935.

Q4. Are you acquainted with Manfred E. Griffiths? How did you come to know him? How long have you known him?

A. Yes. Responsible for original engagement, 25 years.

Q5. Have you any knowledge of any experiments Mr. Griffiths made relating to a plastic composition known as Plastic Wood? If so, please state your knowledge of Mr. Griffiths' experiments in making this composition, giving the dates of the occurrences which you describe.

A. Yes. Responsible for making small laboratory trials in 1919.

Q6. Did Mr. Griffiths ever disclose to you the formula of the plastic composition known as Plastic Wood, above referred to? If so, please relate the circumstances of the disclosure and its approximate

(Interrogatories for Ernest Caizley Murray—
direct.)

date. Describe the nature of this material before
drying in the air and after.

A. Yes. Under the circumstances related in an-
swer 5. Plastic mass before drying, after drying
having the appearance of hard wood.

Q7. Look at the copy of the Griffiths United
States patent No. 1,838,618 for plastic composition
and state whether or not the plastic composition de-
scribed therein is the same as that of which you
have knowledge of Mr. Griffiths' making at the times
you have referred to.

A. I have read the copy of the Griffiths United
States patent No. 1,838,618 for plastic composition,
and I say: The plastic composition made by Mr.
Griffiths is the same as described in this patent.

Q8. Have you any records relating to the making
of the plastic composition described in Mr. Griffiths'
United [312] States patent No. 1,838,618? If so,
please produce them, explain what they are, and at-
tach a photostatic copy of them to your deposition.

A. No. I have not.

Q9. Have you ever seen before the laboratory
records produced by Mr. Griffiths, describing experi-
ments made relating to the plastic composition in
question? If so, when and relate the circumstances
of your acquaintance with these records.

A. Yes. Through making small laboratory trials
in conjunction with Mr. Griffiths.

Q10. Has Mr. Griffiths or his employers manu-
factured any plastic composition such as that de-

(Interrogatories for Ernest Caizley Murray — direct.)

scribed and claimed in Mr. Griffiths' United States patent No. 1,838,618? Prior to December 9, 1921?

A. Yes.

Q11. Have you any knowledge whether or not Mr. Griffiths ever abandoned his invention for the plastic composition between the time it was made and November 17, 1923, the filing date of his application for United States letters patent? If so, state what that knowledge is.

A. I have no knowledge.

Q12. Do you know of anything concerning the material in question that may tend to the benefit and advantage of the plaintiff? If so, declare the same fully and at large as if you had been particularly interrogated concerning the same.

A. No.

Cross Examination

XQ1. If the answer to plaintiff's interrogatory 6 is to the effect that Mr. Griffiths did disclose to you the formula of the plastic composition known as "Plastic Wood", how many formulae did he disclose to you? Give the formulae that he [313] disclosed to you and the dates on which they were disclosed.

A. At least three. Two of the formulas are contained in Mr. Griffiths' records, a photostat copy of which is put in as Exhibit No. 1.

XQ2. What was the purpose of Mr. Griffiths disclosing the formulas?

(Interrogatories for Ernest Caizley Murray—cross.)

A. To enable me to make laboratory trials.

XQ3. Did Mr. Griffiths, Nobel Chemical Finishes Ltd., or any of its predecessors, undertake to manufacture Plastic Wood or any of the formulas that Mr. Griffiths disclosed to you? If so, state the date on which such formula or formulas were first manufactured and designate which formula was manufactured. Also, state when, where, and by whom such formula or formulas were first used for a commercial purpose either by sale or by use.

A. Down to the first part of the question, yes. End of 1919 is the date of first manufacture. Formula No. 1663 in Mr. Griffiths' records was the first one manufactured. I cannot answer the last part of the question.

XQ4. Do you have any knowledge or any means of ascertaining whether or not any of Mr. Griffiths' formulas or Plastic Wood was sent to the United States? If so, give the date of the first introduction and names and addresses of the person or persons to whom it was sent.

A. No.

XQ5. In the Griffiths United States Patent No. 1,838,618 which you are asked to look at in plaintiff's interrogatory 7, there are a number of different compositions; state which of these Mr. Griffiths disclosed to you and the date or dates of the disclosure.

A. Those appearing on lines 50 to 55 of United States Patent No. 1,838,618 about the end of 1919.

(Interrogatories for Ernest Caizley Murray—cross.)

XQ6. Did Nobel Chemical Finishes Ltd. or any of its associates or predecessors manufacture any compositions that could be used for the purposes of Plastic Wood? If so, give the formula thereof and the date of first manufacture, also the date of first sale.

A. Yes. Formula No. 1663 of Mr. Griffiths' records. First manufactured end of 1919. I do not know the date of first sale but from printed matter I have seen I believe it to be September, 1920.

XQ7. If, in answer to plaintiff's interrogatory 8, you have any records relating to the making of the plastic composition described in Mr. Griffiths' United States Patent, do you know whether or not others had knowledge of these records or similar records? If so, state the names and addresses of such others and explain what publicity was given to them.

A. Yes. Other people working in the laboratory had knowledge of similar records. I cannot now give their names and addresses. So far as I know no further publicity was given to those records.

XQ8. Was Mr. Griffiths the inventor of all of the plastic compositions disclosed in his patent? If you have any knowledge to the contrary, state fully such knowledge.

A. Yes. I have no knowledge to the contrary.

XQ9. If your answer to plaintiff's interrogatory 10 is in the affirmative, state the formula of the plastic composition that was manufactured prior to December 9, 1921. Were any plastic compositions

(Interrogatories for Ernest Caizley Murray—cross.)
suitable for use as Plastic Wood manufactured and sold by Mr. Griffiths or his employers prior to November 17, 1921. If so, give the formula thereof and the date or dates of sale, and the names and addresses of the persons to whom sold.

A. That again will be Formula No. 1663 of Mr. Griffiths' records. Both manufactured and sold as far as my knowledge goes. Again Formula No. 1663 of Mr. Griffiths' records. September, 1920, [315] is the first date of sale I have any information of. I cannot give the names and addresses of the persons to whom sold.

XQ10. Do you know why Mr. Griffiths did not obtain a British patent upon his alleged invention for Plastic Wood? If so, state fully the reasons therefor. Do you know whether or not it was Mr. Griffiths' invention to disclose his invention to the public of Great Britain without attempting to secure a British monopoly thereon? If so, please state fully your knowledge.

A. No I do not know why.

XQ11. Do you know of anything concerning the material in question that may tend to the benefit and advantage of the defendant and intervener? If so, declare the same fully at large as if you had been particularly interrogated concerning the same.

A. No I do not. [316]

It Is Hereby Stipulated that the above and foregoing Statement of Evidence is a true and complete

statement of the evidence adduced on the trial of the above-entitled action.

CLINTON L. MATHIS

One of the Attorneys for
Plaintiff-Appellee

G. E. STEINER

One of Attorneys for Defend-
ant and Intervener-Appellants

The foregoing Statement of the Evidence pages 1 to 212, inclusive and 2a, 55a & 72a is hereby approved and settled as a true and complete statement of the material evidence adduced on the trial of the above-entitled action, with the exception of the exhibits by written orders dated June 11th, 1938 and June 16th, 1938 directed to be sent by the Clerk of this Court to the Clerk of the Circuit Court of Appeals.

The Certificate of this Court approving the condensed Statement of Evidence, made June 11th, 1938 is hereby vacated and cancelled and the Clerk of this Court is directed to note on the margin of said certificate dated June 11th, 1938 this order of cancellation.

Dated at Tacoma, Washington, this 17th day of June, 1938.

EDWARD E. CUSHMAN

United States District Judge. [317]

It Is Hereby Stipulated that the above and foregoing Statement of Evidence is a true and complete

statement of the evidence adduced on the trial of the above-entitled action.

CLINTON L. MATHIS

One of Attorneys for
Plaintiff-Appellee

G. E. STEINER

One of Attorneys for Defend-
ant Intervener-Appellants

This certificate vacated and cancelled. See Order following *ctf*, next page above page 213. Edgar M. Lakin, Clerk. June 17, 1938.

The foregoing Statement of the evidence is hereby approved and settled as a true and complete statement of the material evidence adduced on the trial of the above entitled action, with the exception of the physical and documentary exhibits this day by written order directed to be sent by the clerk to the clerk of the Circuit Court of Appeals.

Dated at Tacoma, this 11th day of June, 1938.

EDWARD E. CUSHMAN

United States District Judge

[Endorsed]: Lodged 6/7/38.

[Endorsed]: Filed June 11, 1938. [318]

[Title of District Court and Cause.]

ORDER TRANSMITTING DOCUMENTARY
AND PHYSICAL EXHIBITS TO CIR-
CUIT COURT OF APPEALS.

On stipulation of the parties, It Is Hereby
Ordered, Adjudged and Decreed:

That the following documentary exhibits shall be
forwarded by the Clerk of this Court, at the time
he certifies the record in this appeal, to the Clerk of
the Circuit Court of Appeals for the Ninth Circuit,
for the perparation of copies thereof for the book of
exhibits and to be then returned to the Clerk of
this Court:

Plaintiff's Exhibits

- 1 (Soule testimony)
- 48
- 51
- 52
- 53
- 54
- 1 to 5, inclusive (Griffiths Deposition)
- 55
- 56

Defendant's Exhibits

- A1-A4, inclusive
- A6-A28, inclusive
- A30

And It Is Further Ordered, Adjudged and De-
creed: That the following physical exhibits shall be
forwarded by the Clerk of this Court, at the time he

certifies the record in this appeal, to the Clerk of the Circuit Court of Appeals for the Ninth Circuit:

Plaintiff's Exhibits:

- 2-5, inclusive (Soule testimony)
- 6-25, inclusive
- 28, 35, inclusive
- 37-43, inclusive
- 45
- 47
- 58

Defendant's Exhibits

- A5
- A32-A68, inclusive [319]

Signed at Tacoma, Washington, this 11th day of June, 1938.

EDWARD E. CUSHMAN

United States District Judge

Approved:

CLINTON L. MATHIS

one of attys for plaintiff

G. E. STEINER

one of the attys for Deft & Intervener.

[Endorsed]: Filed Jun. 11, 1938. [320]

[Title of District Court and Cause.]

ORDER TRANSMITTING ADDITIONAL PHYSICAL EXHIBITS TO CIRCUIT COURT OF APPEALS.

On stipulation of the parties, It Is Hereby Ordered, Adjudged and Decreed:

That the following additional physical exhibits shall be forwarded by the Clerk of this Court, at the time he certifies the record in this appeal, to the Clerk of the Circuit Court of Appeals for the Ninth Circuit:

Plaintiff's Exhibits:

46

49

50

Signed at Tacoma, Washington, this 16th day of June, 1938.

EDWARD E. CUSHMAN

United States District Judge.

Approved:

CLINTON L. MATHIS

One of the attorneys for Plaintiff.

G. E. STEINER

One of the attorneys for defendant and Intervenor.

[Endorsed]: Filed Jun. 16, 1938. [321]

[Title of District Court and Cause.]

STIPULATION REGARDING TRANSCRIPT
OF RECORD ON APPEAL

The above-named defendant and intervener having taken an appeal in this cause to the United States Circuit Court of Appeals for the Ninth Circuit from the Inerlocutory Decree entered herein, and it now being the desire of the parties to agree on the contents of and settle the record on said appeal,

It is hereby stipulated at the request of the defendant and intervener, subject to the approval of the Court, that the Clerk of the District Court shall, upon approval of this stipulation by the Court, prepare a transcript of record for use on appeal which shall include a true and correct copy of the attached pleadings, papers, documents, orders, and proceedings entered and on file in the above-entitled cause comprising:

1. Bill of Complaint (by the A. S. Boyle Co.)
2. Answer of the Pacific Marine Supply Company (defendant).
3. Amendment to Answer of Defendant.
4. Petition for Leave to Intervene (of Webb Products Co., Inc.) excluding attached exhibits A to F inc.
5. Order Relative Petition of Webb Products Co., Inc. for Leave to Intervene.
6. Answer of Intervener (Webb Products Co. Inc.) [322]
7. Amendment to Answer of Intervener.

8. Motion for Order Requiring Intervener to Answer Interrogatories and Furnish Further and Better Particulars.

9. Order on Plaintiff's Motion Requiring Intervener to Answer Interrogatories and to Furnish Further and Better Particulars.

10. Interrogatories to Defendant Under Equity Rule 58.

11. Answers to Interrogatories by Intervener.

12. Particulars of Intervener.

13. Particulars of Defendant.

14. Answers to Interrogatories (by defendant).

15. Order for Issuance of Commission.

16. Commission to Take Testimony.

17. Memorandum Decision After Trial (filed Sept. 25, 1937).

18. Order Denying Petition for Rehearing.

19. Exceptions of Defendant and Intervener and Order Allowing Same (relative denying petitions for rehearing).

20. Amended Proposed Findings of Fact of the A. S. Boyle Co.

21. Proposed Conclusions of Law of the A. S. Boyle Co.

22. Defendant's and Intervener's Proposed Findings of Fact and Conclusions of Law.

23. Order (denying defendant's and intervener's proposed findings of fact with the exception of findings 13 and 18-a, and denying defendant's and intervener's proposed con- [323] clusion of law No. 20.)

24. Exceptions of Defendant and Intervener (relative denying defendant's and intervener's proposed findings of fact and proposed conclusion of law No. 20) and Order Noting Exceptions and Allowing Same.

25. Amended Interlocutory Decree.

26. Exceptions of Defendant and Intervener (relative allowance of proposed findings of fact of plaintiff and proposed conclusions of law of plaintiff and entrance of amended interlocutory decree), and Order Noting Exceptions and Allowing Same.

27. Petition for Appeal.

28. Assignment of Errors.

29. Order Allowing Appeal with Supersedeas.

30. Citation on Appeal.

31. Bond (for supersedeas, stay of execution for costs in the district court, costs in Circuit Court of Appeals, and stay of proceedings in the district court pending appeal).

32. Statement of Testimony in Narrative Form.

33. This Stipulation.

34. Clerk's Certificate Under Seal Stating in Detail the Cost of Certifying the Record and When the Record Is Printed Agreeable to Court Rule and/or the Act of February 13, 1911, a Detailed Statement of the Cost Thereof and by Whom Paid.

35. The Names and Addresses of Attorneys Parties to This Appeal Are: George P. Dike, Esq. of Dike, Calver and Gray, 350 Tremont Building, Boston, Massachusetts, G. Wright [324] Arnold, Esq., Clinton L. Mathis, Esq., Smith Tower, Seattle,

Washington, Representing the Plaintiff-Respondent; Fred H. Miller, Esq., 706 Central Building, Los Angeles, California, and G. E. Steiner, Esq., 304 Spring Street, Seattle, Washington, Representing the Defendant and Intervener Who Are the Appellants.

That all of the above, together with the Book of Exhibits and physical exhibits hereinafter mentioned shall constitute the transcript of record of said cause on appeal upon which record said appeal shall be heard and determined (except insofar as the immediately foregoing language may be qualified by the second paragraph of Equity Rule 76), and that said transcript shall be printed under the supervision of the Clerk of the Circuit Court of Appeals and in accordance with the rules of that Court and this stipulation.

In printing said transcript, after the title of the Court and Cause preceding the Bill of Complaint herein the title on subsequent papers need not be printed but in lieu thereof "Title of Court and Cause" may be substituted.

It is further stipulated that at the top of each page of the record on which the testimony of a witness is given that the name of the witness testifying shall be set forth and whether it is direct examination, cross examination, redirect examination, or re-cross examination.

36. At the request of Defendant and Intervener who are appellants, the appellants may embody copies of the documentary exhibits in an indexed

book of exhibits and as the appellee has requested that fifteen (15) copies of the Bk. of Exhibits be prepared over appellants' objection that seven (7) copies should suffice, it is stipulated that fifteen copies of the Bk. of Exhibits shall be prepared, two of which shall be served with [325] the copies of the record on the appellee, two of which are to be retained by the appellants, and the remaining eleven to be filed with the Clerk of the United States Circuit Court of Appeals to accompany the record on appeal; said Bk. of Exhibits shall contain copies of the following documentary exhibits introduced during the trial of said cause;

Plaintiff's Exhibits

- 1 (Soule testimony)
- 26
- 48
- 51
- 52
- 53
- 54
- 1 to 5 inclusive (Griffiths deposition)
- 55
- 56

Defendant's Exhibits

- A1-A4, inclusive
- A6-A28, inclusive
- A30

That the following exhibits shall be treated as physical exhibits and shall be forwarded by the Clerk of the District Court to the Clerk of the

United States Circuit Court of Appeals for the Ninth Circuit for use on argument and in the determination of the appeal:

Plaintiff's Exhibits

- 2-5, inclusive, Soule Testimony
- 6-25, inclusive
- 28-35, inclusive
- 37-43, inclusive
- 45
- 47
- 57
- 58

Defendant's Exhibits

A5

A32-A68, inclusive. [326]

It is further stipulated that the foregoing physical exhibits shall be forwarded by the Clerk at the time he certifies the record in this appeal and that all of the documentary original exhibits may be released and transmitted to whoever undertakes to print the record upon his leaving a proper receipt therefor to enable his preparing copies thereof, either photostatic or otherwise, to be incorporated in the Bk. of Exhibits.

37. If at time of hearing of said appeal any errors appear in this record, resort may be had to the original transcript of the record or to original papers filed in the Clerk's office for purposes of correction.

On printing the record on appeal in this cause the acknowledgment of service in all matters and docu-

ments appearing on the various papers or filed in this cause need not be incorporated in the record but only the Clerk's filing stamp on each paper shall be printed.

38. With respect to the Book of Exhibits mentioned in this stipulation the only marks that need be applied to the individual copies of the exhibits incorporated therein are:

1. The Clerk's filing stamp; and
2. The number of exhibits.

The said Book of Exhibits may be printed separately from but as a part of the Narrative Statement subject to correction for omissions and errors as provided in Equity Rule 76.

39. This stipulation shall be incorporated in the record on appeal and a copy of the same shall be printed in the Book of Exhibits.

40. Order transmitting Documentary and Physical exhibits to Circuit Court of Appeals and order transmitting additional physical exhibits. [327]

Dated: this 7th day of June, 1938.

GEORGE P. DIKE

G. WRIGHT ARNOLD

CLINTON L. MATHIS

By CLINTON L. MATHIS

Attorneys for Plaintiff-Appellee

FRED H. MILLER

G. E. STEINER

By G. E. STEINER

Attorneys for Defendant-Appellant

The foregoing stipulation is hereby approved this 7th day of June, 1938, and it is so ordered.

.....
United States District Judge

[Endorsed]: Filed Jun. 11, 1938. [328]

[Title of District Court and Cause.]

CERTIFICATE OF CLERK U. S. DISTRICT
COURT TO TRANSCRIPT OF RECORD
ON APPEAL.

I, Edgar M. Lakin, Clerk of the United States District Court for the Western District of Washington, do hereby certify that the foregoing typewritten transcript of record, consisting of pages numbered from 1 to 328, inclusive, is a full, true and complete copy of so much of the record, papers and other proceedings in the above and foregoing entitled cause as is required by Stipulation of counsel filed and shown herein, as the same remain of record and on file in the office of the Clerk of the said District Court at Seattle, and that the same constitute the record on appeal herein from that certain Amended Interlocutory Decree of said United States District Court for the Western District of Washington filed and entered February 1, 1938, to the United States Circuit Court of Appeals for the Ninth Circuit.

I further certify that the following is a true and correct statement of all expenses, costs, fees and charges incurred in my office by or on behalf of the

appellants for making record, certificate or return to the United States Circuit Court of Appeals for the Ninth Circuit, to wit: [329]

Clerk's fees (Act Feb. 11, 1925) for making record, certificate or return, 863 folios at 15¢	\$129.45
Appeal fee (Sec. 5 of Act).....	5.00
Certificate of Clerk to Transcript.....	.50
Certificate of Clerk to Original Exhibits.....	.50
<hr/>	
Total.....	\$135.45

I hereby certify that the above cost for preparing and certifying record, amounting to \$135.45, has been paid to me by the solicitors for the Appellants.

I further certify that I attach hereto and transmit herewith the original citation on appeal issued in this cause.

Witness my hand and official seal, at Seattle, in said District aforesaid, this 21st day of June, 1938.

[Seal] EDGAR M. LAKIN,

Clerk of the United States District Court for the Western District of Washington.

By TRUMAN EGGER

Deputy. [330]

In the United States Circuit Court of Appeals
in and for the Ninth Circuit

THE PACIFIC MARINE SUPPLY CO.,
Defendant-Appellant,

WEBB PRODUCTS CO., INC.,
Intervener,

vs.

THE A. S. BOYLE COMPANY,
Plaintiff-Appellee.

CITATION ON APPEAL

The President of the United States of America to
The A. S. Boyle Company, Greeting:

You Are Hereby Cited and Admonished to be and appear in the United States Circuit Court of Appeals for the Ninth Circuit in the City of San Francisco, State of California, within thirty (30) days from and after the date this citation bears, pursuant to an Order allowing appeal filed in the Clerk's office of the District Court of the United States for the Western District of Washington, Northern Division, wherein you are plaintiff and The Pacific Marine Supply Company is defendant and Webb Products Co., Inc. is intervener, to show cause, if any there be, why the Interlocutory Decree rendered against the said appellants should not be corrected and reversed, and the order denying the findings of fact and conclusions of law of the defendant and intervener should not be reversed, and

why speedy justice should not be done to [331] the parties in that behalf.

Witness the Honorable Edward E. Cushman, Judge of the District Court of the United States for the Western District of Washington, Northern Division, this 7th day of Feb., 1938.

[Seal]

EDWARD E. CUSHMAN

U. S. District Judge. [332]

[Endorsed]: No. 8876. United States Circuit Court of Appeals for the Ninth Circuit. The Pacific Marine Supply Company and Webb Products Co., Inc., Appellants, vs. The A. S. Boyle Company, Appellee. Transcript of Record. Upon Appeal from the District Court of the United States for the Western District of Washington, Northern Division.

Filed June 23, 1938.

PAUL P. O'BRIEN,

Clerk of the United States Circuit Court of Appeals
for the Ninth Circuit.



United States ²
Circuit Court of Appeals

In and for the Ninth Circuit

THE PACIFIC MARINE SUPPLY
COMPANY and WEBB PROD-
UCTS CO., INC.,

Appellants,

vs.

THE A. S. BOYLE COMPANY,

Appellee.

Opening Brief for Appellants

FRED H. MILLER,
706 Central Building,
Los Angeles, California;

G. E. STEINER,
304 South Spring,
Seattle, Washington,

Attorneys for Appellants.

FILED
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PAUL F. O'BRIEN,
CLERK



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United States
Circuit Court of Appeals

In and for the Ninth Circuit

THE PACIFIC MARINE SUPPLY
COMPANY and WEBB PROD-
UCTS CO., INC.,

Appellants,

vs.

THE A. S. BOYLE COMPANY,

Appellee.

Appeal No.
8876

Opening Brief for Appellants

STATEMENT OF JURISDICTIONAL FACTS

In this suit plaintiff, The A. S. Boyle Company, alleged infringement of United States Letters Patent to Griffiths No. 1,838,618, by the defendant, The Pacific Marine Supply Company, for having sold Duratite Wood Dough and Duratite Seam Putty (R. 4, paragraph 5).

The District Court thus had jurisdiction under Judicial Code, Sec. 48; 28 U. S. C. 109.

The defendant, The Pacific Marine Supply Company, was a distributor retailing a comparatively small amount of the alleged infringing products. The alleged infringing products were manufactured by the

Intervener, Webb Products Co., Inc., at San Bernardino, California. Consequently, Webb Products Co., Inc., intervened as a manufacturer in the suit brought against its distributor the defendant, The Pacific Marine Supply Company (R. 18-26).

Of claims 5, 6, 8, 11, 13, 16, 17, and 18 alleged to be infringed (R. 4, paragraph 5) the District Court held that claims 5, 8, 13, 16, and 17 were valid and infringed by Duratite Wood Dough (R. 63, 86). The remaining claims were held not to be infringed (R. 61).

The product called Duratite Seam Putty was withdrawn from issue by the plaintiff's attorney in his opening statement (R. 107).

An Interlocutory Decree was entered holding claims 5, 8, 13, 16, and 17 infringed by Duratite Wood Dough.

This appeal is prosecuted from such holding under Judicial Code Section 129; 28 U. S. C. A. 227A. No cross-appeal from the holding that claims 6, 11, 15, and 18 are not infringed has been filed by the plaintiff-appellee.

STATEMENT OF THE CASE

The Griffiths patent in suit (Ex. Bk., p. 1) is for a plastic composition used for "filling, coating or molding" (Ex. Bk., p. 1, ll. 4 and 5).

Its essential ingredients are:

- (1) Nitrocellulose which serves as a binder;
- (2) A volatile solvent therefor, such as acetone;

(3) Finely divided cellulose filler such as wood flour (see R. 105, 114-115).

The plaintiff asserts two additional ingredients, namely

(4) Oil, which ameliorates the brittleness of the nitrocellulose binder when the volatile solvent evaporates away; and

(5) Gum, which contributes adhesiveness to the composition

are non-essential or less essential (R. 106) although the patent itself makes no disclosure that these ingredients can be omitted.

As set forth in the patent in suit, the ratio of filler (finely divided cellulose or wood flour) to a solution of nitrocellulose, solvent, gum, and oil is from 15 to 30 parts filler to 85 to 70 parts solution (Ex. Bk., p. 1, ll. 58-60). Proportions outside of these limits may be employed (Ex. Bk., p. 1, ll. 60 to 63).

A typical claim of the patent reads:

“5. A doughy putty-like plastic composition comprising nitrocellulose in a solution containing a volatile liquid, and a finely divided cellulose filler in such proportions as to harden upon mere exposure to air to substantially the rigidity and solidity of wood.”

The analysis of the alleged infringing Duratite Wood Dough is (R. 116) nitrocellulose, 10.5% by weight; solvent, 41% by weight; filler 11.5% by weight; gums and oils 5.7% by weight; inorganic material, 31.3% by weight.

Of course, if claim 5 is to be construed as valid and as being broad enough to cover all plastic compositions containing nitrocellulose, volatile solvent, and finely divided cellulose filler—regardless of the percentages of the ingredients—then this claim is readable on the Duratite Wood Dough composition. The Duratite Wood Dough does contain nitrocellulose, volatile solvent, and finely divided cellulose filler. But the proportions are vastly different from what is disclosed in the Griffiths patent. Instead of having the filler content between 15 and 30% by weight as stated in lines 58 to 60 of the Griffiths patent (Ex. Bk., p. 1) and in claims 6, 11, 15, and 18 thereof, and instead of having filler content between 20 and 25% as stated by the Griffiths patent (Ex. Bk., p. 1, l. 67) the Duratite Wood Dough has a filler content of only 11.5%.

But all proportions of nitrocellulose, volatile solvent, and finely divided cellulose filler will not produce the desired result (R. 332). The plaintiff and the Lower Court therefore have been forced to rely on the nebulous functional and indefinite statements in the claims that the composition is “doughy, putty-like” and that the ingredients are

“in such proportions as to harden upon mere exposure to air to substantially the rigidity and solidity of wood” (R. 64).

These claims in such nebulous functional and indefinite form were never granted by the officials of the Patent Office. The record of the Griffiths application shows that the Examiner denied these claims. An ap-

peal was taken to the Board of Appeals. That tribunal also denied these claims. In so doing it criticized the vague, indefinite, and functional character of these claims (Ex. Bk., pp. 59, 60). Instead of appealing to the Court of Customs and Patent Appeals, suit was brought under the provisions of R.S. 4915 in the Supreme Court of the District of Columbia. The unenlightened judge therein reversed the Patent Office and awarded all claims appealed, which included those now in issue herein, regardless of their manifestly functional character.

But the strange part of all these proceedings is that the best or closest prior art was not developed nor cited by the Examiner nor by the Board of Appeals nor was it placed in evidence before the Judge of the Supreme Court of the District of Columbia who reversed the Patent Office. The Patent Office found no patentability to exist in the claims now in issue on art that was inferior to the prior art now before this Court. When the Supreme Court of the District of Columbia reversed the Patent Office it did not have the Pierson or Oblasser patents before it. (Interrogatories 25 and 26, R. 190 and 191.)

The Lower Court herein has been unduly impressed by the decision of the Supreme Court of the District of Columbia (R. 63). But it should not have been so influenced when, as appears from the record herein (R. 190, 191) that Court did not have the best prior art before it, namely the Pierson and Oblasser patents.

The Lower Court herein has also been unduly impressed by the decision of the District Court of Massachusetts (R. 63) which sustained the patent in suit. Such holding, however, can have little influence in this Court.

Icyclair, Inc., vs. National Popsicle Corp., et al.,
94 Fed. (2nd) 669;

Triplett vs. Lowell, 297 U. S. 638.

Likewise, the Lower Court herein has been unduly impressed by the plaintiff's commercial success (R. 63), but commercial success is not a substitute for invention, particularly when it is largely based upon the plaintiff's ability to spend enormous amounts in advertising and on the plaintiff's catchy trade-name "Plastic Wood."

This appeal is based on the following:

(1) That the claims of the Griffiths patent held by the District Judge to be valid and infringed are invalid

(a) because they are too functional and indefinite to be valid, R. S. 4888;

(b) because they are anticipated by prior art, namely the Pierson and Oblasser patents, which were never before the Patent Office, nor before the Supreme Court of the District of Columbia;

(c) because the composition defined by the claims lacks invention over the prior art.

(2) If the claims are narrowed by the Pierson patent as stated by the District Judge (R. 64) then they cannot be construed to cover Duratite Wood

Dough which has a radically different composition.

ASSIGNMENTS OF ERROR RELIED UPON

Assignments of error directed to the vagueness, functionality, and indefiniteness of the claims are 20, 21, 22, and 23 (R. 96, 97).

Assignments of error directed to anticipation of claims by the Pierson and Oblasser patents are 7, 8, 10, 11, 17, and 18 (R. 92-96).

Assignments of error directed to the claims lacking invention over the prior art are 9, 12, 13, 14, 15, 16, and 19 (R. 93-96).

The assignment of error directed to the holding of infringement is 34 (R. 99).

CLAIMS 5, 8, 13, 16, AND 17 ARE TOO BROAD, VAGUE, FUNCTIONAL, AND INDEFINITE TO BE VALID.

20.

The Court erred in failing to hold that claims 5, 8, 13, 16, and 17 of Griffiths patent No. 1,838,618 are invalid as being vague and indefinite.

21.

The Court erred in failing to hold claims 5, 8, 13, 16, and 17 of Griffiths patent No. 1,838,618 are invalid as being broader than the invention.

22.

The Court erred in failing to hold claims 5, 8, 13, 16, and 17 of Griffiths patent No. 1,838,618 are invalid for the reason that there is no foundation in the specification or any definition therein as to what constitutes a doughy, putty-like plastic composition.

23.

The Court erred in failing to hold that claims 5, 8, 13, 16, and 17 of the Griffiths patent No. 1,838,618 were invalid as being vague and indefinite as to when a composition hardens into substantially the rigidity and solidity of wood and in failing to find that the defendant's and intervener's compositions did not harden into substantially the rigidity and solidity of gypsum.

Each of the claims held valid and infringed recite "A doughy, putty-like plastic composition" comprising nitrocellulose, a volatile solvent, a finely divided cellulose filler with or without gum or oil

"in such proportions as to harden upon mere exposure to air to substantially the rigidity and solidity of wood,"
or words to that effect.

There are no limitations or definitions in these claims as to what these proportions are. The specification of the patent makes no definition of what is meant by "doughy, putty-like" or within what limits the proportions must be to enable the composition

"to harden upon mere exposure to air to substantially the rigidity and solidity of wood."

If these proportions must lie between 20 and 25 parts of filler as stated in the patent, line 67, or between 15 and 30 parts as stated in lines 58 and 59, then there obviously is no infringement because the defendant's composition contains only 11.5% of filler.

In the prior art there are the Pierson and Oblasser patents (Ex. A7 and A10, Ex. Bk., pp. 71, 81). These contain the same three essential ingredients, namely nitrocellulose, volatile solvent, and finely divided cellulose filler, as admitted by the plaintiff-appellee's own expert Esselen (R. 330):

"Q. Well, you do find in the Pierson patent, don't you, a composition composed of nitro-cellulose in a solution containing a volatile liquid and a finely-divided cellulose filler?"

"A. Yes . . . "

(R. 332):

"Q. It (the Oblasser patent) indicates plastic, and he has presented there a nitro-cellulose in a solution containing a volatile liquid and a finely-divided cellulose filler, hasn't he?"

"A. That is true . . . "

Both Pierson's and Oblasser's compositions are for "molding." Pierson says his is for molding and statuary (Ex. Bk., p. 72, middle of column 1) and Oblasser discloses molding a battery box from his composition.

The claims of the Griffiths patent thus differentiate from the Pierson and Oblasser patents, if at all, merely by the functional statement that the ingredients shall be

"in such proportion as to harden upon mere exposure to air to substantially the rigidity and solidity of wood."

How is a manufacturer seeking to follow what is taught or disclosed by the Pierson and Oblasser patents, which are now public property in this country, going to be able to ascertain when he is or is not infringing the indefinite claims of Griffiths? If he makes a moldable composition following the disclosure of Pierson or Oblasser he will have a composition that produces on drying in air a solid substance having

"substantially the rigidity and solidity of wood"

(see Ex. A-34, A-36, A-38, A-42, A-43, A-45), made up in accordance with the disclosures of these patents.

The attempted differentiation of the Griffiths patent from Pierson and Oblasser of the prior art by the functional statement

"in such proportions as to harden upon mere exposure to air to substantially the rigidity and solidity of wood"

compares favorably with the functional statement before the Supreme Court in *General Electric Co. v. Washburn Appliance Corp., et al.*, 37 U. S. P. Q. 466;U. S. decided May 16, 1938.

“The claim further states that the grains must be ‘of such size and contour as to prevent substantial sagging and offsetting’ during a commercially useful life for the lamp. The clause is inadequate as a description of the structural characteristics of the grains. Apart from the statement with respect to their function, nothing said about their size distinguishes the earliest filaments, and nothing whatever is said which is descriptive of their contour (termed by the district court a ‘very important element’), not even that they are irregular.

“The claim uses indeterminate adjectives which describe the function of the grains to the exclusion of any structural definition and thus falls within the condemnation of the doctrine that a patentee may not broaden his product claims by describing the product in terms of function. Claim 25 vividly illustrates the vice of a description in terms of function. ‘As a description of the invention it is insufficient and if allowed would extend the monopoly beyond the invention.’ The Court of Appeals for the Ninth Circuit relied on the fact that the description in the claims is not ‘wholly’ functional. 80 F. (2d) 958, 963. But the vice of a functional claim exists not only when a claim ‘wholly’ functional, if that is ever true, but also when the inventor is painstaking *when he recites what has already been seen and then uses conveni-*

ently functional language at the exact point of novelty.

“A limited use of terms of effect or result which *accurately* define the essential qualities of a product to one skilled in the art, may in some instances be permissible and even desirable, *but a characteristic essential to novelty may not be distinguished from the old art solely by its tendency to remedy the problems in the art met by the patent.*”

Here, as the prior art Pierson and Oblasser disclose moldable compositions made up of nitrocellulose, volatile solvent, and finely divided cellulose filler—and this fact is admitted by the plaintiff’s own expert Esselen—a conveniently functional statement is resorted to “at the exact point of novelty,” if any novelty existed, to differentiate from the prior art. The vice of these claims is that no one can tell when he departs from making the Pierson and Oblasser compositions and falls within the domain of Griffiths and is making a composition which has “such proportions” as to harden upon drying “to substantially the rigidity and solidity of wood.”

In this case the Intervener used only 11.5% by weight of wood flour and inorganic materials to the extent of 31.3% by weight (R. 116). The inorganic materials were identified by the plaintiff’s expert Esselen as gypsum (R. 116). If, as contended by plaintiff the intervener’s composition contained 31.3% of gypsum, then the intervener’s product would be properly

characterized as hardening upon mere exposure to air “to substantially the rigidity and solidity of” gypsum.

We ask this Court to invalidate these claims in the same manner that the Supreme Court did in the above case in the following language:

“We need not inquire whether Pacz’s exhibited invention, or whether his product was anticipated. The claim is invalid on its face. It fails to make a disclosure sufficiently definite to satisfy the requirements of R. S. 4888; 35 U. S. C. 33.”

However, as this Court may be interested in how closely the prior art anticipated the invention the following is submitted:

**CLAIMS 5, 8 AND 17 ARE ANTICIPATED BY
THE PIERSON AND OBLASSER PATENTS
EXHIBITS A7 AND A10.**

7.

The Court erred in failing to hold that claim 5 of Griffiths patent No. 1,838,618 is invalid in view of the disclosure in United States Letters Patent to Pierson No. 65,267, issued May 28, 1867.

8.

The Court erred in failing to hold claim 5 of Griffiths patent No. 1,838,618 invalid in view of the disclosure of the British patent to Oblasser et al. No. 19,242 of 1892.

10.

The Court erred in failing to hold that claim 8 of Griffiths patent No. 1,838,618 is invalid in view of the disclosure in United States Letters Patent to Pierson No. 65,267 issued May 28, 1867.

11.

The Court erred in failing to hold claim 8 of Griffiths patent No. 1,838,618 invalid in view of the disclosure of the British patent to Oblasser et al. No. 19242, of 1892.

17.

The Court erred in failing to hold that claim 17 of Griffiths patent No. 1,838,618 is invalid in view of the disclosure in United States Letters Patent to Pierson No. 65,267, issued May 28, 1867.

18.

The Court erred in failing to hold claim 17 of Griffiths patent No. 1,838,618 invalid in view of the disclosure of the British patent to Oblasser et al. No. 19,242 of 1892.

Considering first claim 5 of the Griffiths patent, this claim merely calls for a doughy composition of nitro-cellulose, volatile solvent, and finely divided cellulose filler in such proportions as to harden into substantially the rigidity and solidity of wood.

The Pierson patent makes such a disclosure. Pierson first discloses nitrating various forms of cellulose (Ex. Bk., p. 71, column 1). He denominates his nitro cellulose as "plastic." At the top of column 1 (Ex. Bk., opposite p. 72) he says:

"In practice, I propose to produce the fabrics above named by mixing the plastic and solvents with mineral or vegetable powders . . . "

Thus, when he mixes his "plastic" with solvents and vegetable powders he has a composition of nitrocellulose, solvent, and finely divided cellulose as claimed by Griffiths. Furthermore, the composition is stated to be for molding the various articles mentioned at the bottom of column 2 (Ex. Bk., p. 71). Griffiths likewise says that his composition is for molding (Ex. Bk., p. 1, l. 5). If the disclosure in Griffiths to the effect that his composition is for "molding" justifies his claiming in his claims that the composition is "doughy, putty-like," then obviously the statement in Pierson that his composition is for molding justifies the same appellation.

Pierson further gives a concrete example of his moldable composition. He says, at the middle of the first column (Ex. Bk., p. 72):

"In carbons, &c., take plastic, one part; alcohol, four; ether, four; charcoal powder, one to sixteen. Lamp-black or plumbago may be substituted for the charcoal, *sawdust, straw, or any vegetable powder or fiber* may also be substituted for the charcoal, and oil may often be added to advantage, useful for statuary and moldings, and

some forms for paints, and some for marking-pencils, and for other purposes.”

If one part of sawdust or vegetable powder filler is used, the percentage is

$$\frac{1 \text{ part filler}}{1 \text{ part plastic} + 4 \text{ parts alcohol} + 4 \text{ parts ether} + 1 \text{ part filler}} = \frac{1}{10} = 10\%.$$

If sixteen parts are used, the percentage of filler is

$$\frac{16 \text{ parts filler}}{1 \text{ part plastic} + 4 \text{ parts alcohol} + 4 \text{ parts ether} + 16 \text{ parts filler}} = \frac{16}{25} = 64\%$$

Thus, Pierson here discloses a composition of nitro-cellulose (plastic), volatile solvent (alcohol and ether), and finely divided cellulose (sawdust or vegetable powder)—the proportions of filler to the whole being 10 to 64%. The Griffiths composition contains from 15 to 30% filler which is in the center of Pierson’s larger range. Griffiths says (Ex. Bk. p. 1, line 60):

“On the other hand, proportions outside these limits may be employed.”

Obviously, if Griffiths’ composition having 15 to 30% filler, or even filler in a percentage outside these limits, is “doughy” or “putty-like” as described by the Griffiths claims, Pierson having his filler present from 10% to 64% has the same characteristics. If Griffiths has such characteristic as to “harden upon mere exposure to air to substantially the rigidity and solidity of

wood," Pierson's composition likewise possesses these properties. This is because the compositions are the same, having the same ingredients in the same relative proportions. Pierson merely gives a wider range of filler because of the number of different substances suggested for use as fillers.

The experts are in agreement as to what Pierson discloses. Defendant's expert Roller said (R. 206) :

"Q. Now, referring to claim 5 of the Griffiths patent, do you have in the Pierson patent a description in that lower paragraph of Column 1, page 3, 'A doughy, putty-like plastic composition comprising nitro-cellulose in solution, containing a volatile liquid and a finely-divided cellulose filler?'

"A. Yes, you do if you used your sawdust or straw or vegetable powder which Pierson specified.

"Q. Now, is that composition of such proportions that it will harden upon mere exposure to air to substantially the rigidity and solidity of wood?

"A. Yes."

Obviously, this is true. If less filler is present, more time is required to evaporate the solvent. If more filler is present, there is less proportional solvent and consequently less time is required to evaporate it. But the result is the same. The composition hardens to substantially the rigidity and solidity of wood. Regardless of whether there is more or less solvent present, all of it must be evaporated or dried off.

Even the plaintiff recognizes this. It markets its Plastic Wood in cans and in collapsible tubes. That

which is placed in tubes is of much thinner consistency containing more solvent than that which is placed in cans (R. 304, 315). Also the plaintiff markets solvent in cans for use with its Plastic Wood when its Plastic Wood has become too stiff or dry (R. 303). In using it to restore Plastic Wood to its original consistency the directions say merely "pour in a little Plastic Wood Solvent." How much solvent is to be poured in is not stated. It is not very material. The user is to use his own judgment. A little more or less solvent does not materially affect the product—merely the length of time for the solvent to completely evaporate.

Plaintiff's expert Esselen agrees with Roller as to the disclosure of the Pierson patent (R. 330):

"Q. Well, you do find in the Pierson patent, don't you, a composition composed of nitro-cellulose in a solution containing a volatile liquid and a finely-divided cellulose filler?"

"A. Yes, without any proportions or other suggestions given."

The answer is in error with respect to the lack of proportions in Pierson. Pierson does set forth, as quoted above, the proportions as being one part plastic (nitro-cellulose); 4 parts alcohol; 4 parts ether, and one to sixteen parts filler, depending upon the filler used.

But even if the statement was true as to the lack of proportions there would be nothing patentable in selecting any particular proportions. There is nothing critical about the proportions used in the composition (R. 272, 273). As Pierson states that his composition is for mold-

ing—the same purpose as Griffiths—the obvious thing to do would be to make up a solution of one part nitrocellulose; 4 parts alcohol; 4 parts ether, and add to this solution enough sawdust or vegetable powder filler until the desired consistency for molding was obtained.

A child indulging in the disapproved but fascinating pastime of making mud pies follows the same procedure—namely, adding dirt to water until the desired consistency for mud pie making is obtained.

The Oblasser patent (Ex. Bk., p. 81) makes a similar disclosure wherein the reader is expected to use some judgment in securing whatever consistency he desires. He first describes nitrating cellulose and then adding camphor which would convert the nitrocellulose to celluloid (Ex. Bk., p. 82, ll. 37-40; R. 230). He then dissolves in a solvent such as acetone (Ex. Bk., p. 82, l. 42) producing a coating (l. 43). Finally,

“By mixing our coating with certain substances we may obtain a sort of agglomerate susceptible of being moulded.” (Ex. Bk., p. 82, ll. 50, 51.)

Among the materials suggested for mixing with the coating are “sawdust or cork waste, cork powder,” (l. 53).

“Under these circumstances, instead of rendering a receptacle of wood or other material tight by the application of our coating *we may manufacture it directly by moulding, use being made of the said agglomerate.*” (Ex. Bk., p. 83, ll. 1-3.)

There is thus a disclosure in Oblasser of a moldable composition made up of nitrocellulose, a volatile sol-

vent, and finely divided cellulose filler. It is to harden upon mere drying in air into a substitute for wood in the manufacture of battery boxes.

There is no novelty whatever defined in Griffiths' claim 5 over what is disclosed in the Pierson and Oblasser patents. Both patents disclose moldable compositions which would naturally be made of a doughy or putty-like consistency so as to be moldable. Both patents disclose the use of the three essential ingredients, to wit, nitrocellulose, a volatile solvent, and a finely divided cellulose filler. In both patents, the substance when hardened, will have substantially the rigidity and solidity of wood if sawdust or vegetable powders as suggested therein are used. Obviously, if some of the other fillers are used, such as metallic powders, suggested in both patents, the resulting product will take on the characteristics of the metallic powders.

Claim 8 of Griffiths patent specifies the presence of a "non-drying oil"—this being the only distinction from claim 5. Pierson says, at the middle of column 1 (Ex. Bk., p. 72):

"and oil may often be added to advantage."

The plaintiff's own expert Esselen said (R. 144, 145):

"Q. Now, if you have a compound containing nitro-cellulose, alcohol and ether and finely-divided sawdust or finely-divided vegetable powder you will necessarily have present in that composition some vegetable oil and some resin, isn't that correct?"

“A. What was the filler you included, Mr. Miller?”

“Q. Finely-divided sawdust or vegetable powder.”

“A. If you use dry vegetable powder you do not necessarily. Sawdust, of course, usually contains natural oil and the gum.”

Furthermore, castor oil was well known long prior to Griffiths alleged invention as a means for ameliorating the brittleness of nitro-cellulose compositions. This is the only function that castor oil performs in the Griffiths composition. Plaintiff's own expert Esselen testified (R. 144):

“Q. In fact, during 1915, 1916 and 1917 castor oil was a well-known ingredient to use in nitro-cellulose plastic compositions to ameliorate the brittleness of the composition, wasn't it?”

“A. Yes.”

He is in agreement with defendant's expert Roller (R. 208). See also the Parks patent (Ex. Bk., p. 142B, l. 37) where the use of castor oil is suggested for this purpose in a similar composition.

Therefore, the inclusion of the “non-drying oil” ingredient in claim 8 does not render this claim patentable over claim 5 which, as above pointed out, is anticipated by the Pierson and Oblasser patents.

Claim 13 differs from claim 5 in the following respects:

- (a) It specifies the presence of castor oil;
- (b) It specifies that the solvent is acetone;

(c) It specifies the presence of a resinous body, to wit, ester gum.

There is nothing patentable about specifying these ingredients. The addition of castor oil to reduce the brittleness of a nitro-cellulose composition was old and well known. Pierson even suggested that oil may often be added to advantage. (Middle of column 1, Ex. Bk., p. 72.) This specification in the claim did not impart patentability to it. Likewise, the use of acetone as a solvent for nitrocellulose was old and well known. It is specifically mentioned in the Oblasser patent as being the solvent. While Pierson suggested the use of alcohol and ether, it was long known prior to Griffiths alleged invention that acetone was a good substitute for alcohol and ether for this purpose (R. 144, 217). The recitation that there is present a resinous body or ester gum which imparts adhesiveness to the composition does not render the claim patentable. As stated by Esselen (R. 144, 145) sawdust would naturally contain some resin. Oblasser mentions the presence and use of resin. (Ex. Bk., p. 82, l. 54.) Furthermore, it was well known that nitro-cellulose compositions could have their adhesiveness increased by the addition of ester gum (R. 144).

There is nothing patentable about specifying these three ingredients in the claim any more so than in specifying the presence of a pigment to impart color to the composition or perfume to impart a delightful odor thereto.

Claim 16 is the same as claim 13 with the single exception that the volatile solvent is not definitely re-

cited as being acetone. It is anticipated by the Pierson and Oblasser patents for the same reasons. Acetone has long been recognized as a substitute for alcohol and ether as a solvent for nitrocellulose.

Claim 17 is of the same scope as claim 5, being merely of different phraseology. It is anticipated by the Pierson and Oblasser patents for the same reasons above advanced in connection with claim 5.

We are cognizant of the rule that a prior "paper" patent is to be narrowly construed as an anticipation. The Pierson patent, however, was not a "paper" patent. In fact, suit was brought upon the Pierson patent in *Celluloid Mfg. Co. vs. Crofut, et al.*, 24 F. 796, alleging that claims 1 and 2 had been infringed. Claim 2 of the Pierson patent covers the combination of "plastic," nitrocellulose in solution, with vegetable or any other foreign matter. It is thus manifest that compositions of the character now alleged to be infringed were manufactured by at least one infringer during the life of the Pierson patent. When the Pierson patent expired, all that was disclosed therein became public property. The public was entitled to make compositions of nitrocellulose, alcohol and ether, or equivalent solvents that were well known, and sawdust, or other vegetable powders. The public was entitled to make any composition between the one and sixteen parts or 10 and 64% of finely divided cellulose filler. It was manifestly improper for the District Court to hold that Griffiths at this late date could monopolize a composition in the center of the range disclosed by Pierson be-

cause Pierson's entire range became public property on the expiration of his patent.

**THERE IS NO INVENTION DEFINED BY THE
GRIFFITHS CLAIMS OVER THE STATE OF
THE ART.**

9.

The court erred in failing to hold claim 5 of Griffiths patent No. 1,838,618 invalid in view of the state of the art as evidenced by the following:

United States Patents

Merrick	1,203,229
Black	1,294,355
Eckstein	458,157
Deitz and Wayne	133,969
Ellis	999,490
Grawl	1,652,353
Arnold	1,195,431
Lindsay	1,493,207
Hyatt and Blake	89,582
Reagles	311,203
Jarvis	329,313
Dunwoody and Wills	1,187,890
Ritschke	1,497,028

and the British patents to:

Mennens	2,775	Nov. 13, 1860
Bulling	169,177	Dec. 18, 1922
De Pont et al	24,790	Nov. 5, 1896
Thompson	27,534	Nov. 23, 1897
Parks	2,675	Oct. 28, 1925
“	1,614	May 16, 1868

12.

The court erred in failing to hold claim 8 of Griffiths patent No. 1,838,618 invalid in view of the state of the art, particularly those patents as listed in the foregoing assignment numbered 9.

13.

The court erred in failing to hold claim 13 invalid for lack of invention over the disclosures in the United States Letters Patent to Pierson No. 65,267 and the British patent to Oblasser et al. No. 19,242 of 1892, particularly in view of the fact that acetone was a well recognized solvent for nitro-cellulose prior to the date of Griffiths' invention and that the effects of castor oil and resinous bodies or gums in nitrocellulose plastic compositions were well known and well recognized prior to the effective date of Griffiths' invention.

14.

The court erred in failing to hold that claim 13 of the Griffiths patent No. 1,838,618 is invalid as lacking invention over the disclosures of the prior art, particularly those patents as listed in foregoing assignment numbered 9.

15.

The court erred in failing to hold claim 16 invalid for lack of invention over the disclosures in the United States Letters Patent to Pierson No. 65,267 and the British patent to Oblasser et al. No. 19242 of 1892,

particularly in view of the fact that acetone was a well recognized solvent for nitrocellulose prior to the date of Griffiths' invention and that the effects of castor oil and resinous bodies or gums in nitrocellulose plastic compositions were well known and well recognized prior to the effective date of Griffiths' invention.

16.

The Court erred in failing to hold that claim 16 of the Griffiths patent No. 1,838,618 is invalid as lacking invention over the disclosures of the prior art, particularly those patents as listed in the foregoing assignment numbered 9.

19.

The court erred in failing to hold claim 17 of Griffiths patent No. 1,838,618 invalid in view of the state of the art, particularly those patents as listed in the foregoing assignment numbered 9.

As above pointed out, Pierson and Oblasser both disclose moldable compositions having nitrocellulose, volatile solvent, and finely divided cellulose filler. Pierson, in addition, suggests the use of oil and Oblasser suggests the use of resin and that acetone be used as a solvent.

If Griffiths did anything, he merely made a specific selection of the preferred proportion in the wider range of Pierson. *Bethlehem Steel Co. vs. Churchward International Steel Co.*, 268 F. 361 (C. C. A. 3):

“But novelty of proportions in the sense of the patent law involves something more than figuring out proportions differing from any that were known before. It involves new results from new proportions, developing a new metal, or, it may be, an old metal with new characteristics of structure or performance, embracing entirely new, or at least substantially enhanced, qualities of utility. *Glue Co. vs. Upton*, 97 U. S., 324 L. Ed. 985; *Welling vs. Crane* (C. C.) 21 F. 707; *Brady Brass Co. vs. Ajax*, 160 F. 84, 90, 87 C. C. A. 240; *Pittsburgh Iron & Steel Co. vs. Seaman-Sleeth Co.*, 248 F. 705, 160 C. C. A. 605; *Miami Copper Co. vs. Mineral Separation Ltd.*, 244 F. 752, 157 C. C. A. 200.”

In *David Belais, Inc. vs. Goldsmith Bros. Smelting & Refining Co.*, 6 F. (2d) 930, affirmed 10 F. (2d) 673 (C. C. A. 2), certiorari denied 271 U. S. 687, the court said:

“I am of the opinion that the Belais formula is the result of a mere selection of proportions to give a desired character, whiteness at the expense of ductility, and that such selection is in accord with the normal development of the art in making white gold. I do not believe that the Belais formula, even if better than others which preceded it, is an invention. The development of an old idea, and changing merely the degree, certainly does not involve invention. Novelty in proportions involves something more than merely figuring out differing proportions that were well known before. A new metal must be developed, in the sense that new results come from the new proportions, and substantially better results so far as utility is concerned must be present.

“In the present instance, the difference in degree as to the various products having slightly different proportions of the baser metals brings forth differences of opinion both as to appearance and workability. There is no startling change or narrow line of demarcation between one product and another. On the one hand, there is no absolutely bad product; and, on the other hand, there is no absolutely good product. The case of *Brady Brass Co. vs. Ajax Metal Co.*, 160 F. 84, 87 C. C. A. 240, seems to me to be quite a point, and a quotation therefrom (page 90) seems pertinent to the instant case:

‘A mere difference in the proportions of the constituents of an alloy, however useful the result may be, does not entitle the originator to the monopoly of a patent, in the absence of other circumstances than those here disclosed.’ ”

See also, *Smith vs. Nichols*, 88 U. S. 112, 22 L. Ed. 566:

“But a mere carrying forward or new or more extended application of the original thought, ‘a change only in form, *proportions*, or degree, the *substitution of equivalents*, doing substantially the same thing in the same way by substantially the same means with better results is not such invention as will sustain a patent.” (Italics ours.)

See also,

Economy Fuse & Mfg. Co. vs. Coe, Commissioner of Patents, 86 F. (2d) 850; 31 U. S. P. Q. 193;

Minnesota Mining & Mfg. Co. vs. Coe, Commissioner of Patents, Appellate D. C.; 38 U. S. P. Q. 213;
35 U. S. C. A., section 31, note 61.

There is nothing peculiar about Griffiths' proportions nor is there anything critical about having the proportions such that the composition would be "doughy" or "putty-like." The plaintiff has represented to the trade that the Griffiths patent covers any and all wood base putties containing nitrocellulose, solvent, and wood flour or their equivalents is an infringement of this patent (Ex. Bk., p. 51). Even Griffiths' laboratory notes indicate that he did not undertake to limit his alleged invention or discovery to a doughy or putty-like composition. At Ex. Bk., p. 36, two formulas are given entitled "*Liquid Wood*." In Exhibit 5 of the Griffiths deposition (Ex. Bk., p. 41) there are two formulas given entitled "*Concentrated Plastic Wood*." In Exhibit 1, (Ex. Bk., p. 29) there is a further formula entitled "*Liquid Wood*." In the formula at the upper right-hand corner of page 29, Ex. Bk., there is a formula for liquid wood containing only 12.5% wood meal comparing favorably with Pierson's minimum of one part filler, or 10%. At page 41, Ex. Bk., the lower most concentrated plastic wood formula provides for 40% wood meal, comparing favorably with the upper limit of Pierson, namely sixteen parts or 64%.

Not only are the Pierson and Oblasser disclosures direct anticipations but the entire prior art is so well

developed as to leave no room for anything such as is disclosed in the Griffiths patent to be characterized as arising to the dignity of invention.

Thus, the Merrick patent, Exhibit A-8, (Ex. Bk., p. 74) discloses a moldable composition for shoe bottoms comprising a solution of pyroxylin (nitrocellulose) with ground cork or asbestos fiber, (ll. 50 to 59.) He also says:

“finely divided wood, leather, paper-pulp, etc.”

may be substituted for the cork (ll. 59-60). In the case of substitution of finely divided wood, the same composition as Griffiths is obtained. Nor would there be anything inventive in adding castor oil to his composition. Plaintiff's expert Esselen in making up a sample of what was disclosed in Merrick, fairly loaded it with 18 grams of castor oil (R. 318) although there is nothing said about castor oil in the patent (R. 321, 322). The justification for this was merely that the patent specified that it merely was flexible. This demonstrates how well the function of castor oil in a composition of this character was known.

Thompson, Ex. A-11 (Ex. Bk., p. 87) discloses a coating made of celluloid dissolved in acetone and mixed with various substances including “vegetable, mineral or animal powders” (ll. 6 to 12). The celluloid dissolved in acetone and mixed with vegetable powder is to be used as a “*coating*” (line 7) which is the same purpose as stated in the Griffiths patent (Ex. Bk., p. 1, l. 4).

In the Black patent, Ex. A-12 (Ex. Bk., p. 91) celluloid (nitrocellulose) is dissolved in acetone and mixed with powdered silica instead of wood flour as in Griffiths (Ex. Bk., p. 91, ll. 51-59). Even Griffiths contemplated mixing his nitrocellulose compound with carborundum, see Ex. Bk., p. 42, where he has a formula for plastic carborundum. The Black patent clearly recognizes that the addition of gum to a nitrocellulose solution will impart or increase its adhesiveness (Ex. Bk., p. 91, ll. 107-111).

The Eckstein patent, Ex. A-13 (Ex. Bk., p. 95) discloses the use of both gum and castor oil in a solution of collodion (nitrocellulose), (ll. 60 to 68). As a filler, instead of using wood flour as in Griffiths he suggests the use of zinc white or heavy spar (Ex. Bk., p. 96, l. 40). Even Griffiths contemplated the use of plaster of paris and kaolin in the formulas for "Filler" and "Plastic Wood for Extrusion" (Ex. Bk., p. 42).

Hyatt and Blake, Ex. A-20 (Ex. Bk., p. 115) mixes a solution of collodion with ivory dust as a filler and molds the resulting composition. During the molding, pressure is maintained and evaporation of the solvent is accelerated by the application of heat (middle of first column, Ex. Bk., p. 115). Hyatt and Blake thus use one form of animal powder. Griffiths contemplated another form as his laboratory notes disclose the use of leather chips to make plastic leather (Ex. Bk., p. 43).

Bulling, Ex. A-26 (Ex. Bk., p. 130) mixes a solution of celluloid with calcium chloride, lines 27 to 36.

Parkes, Ex. A-28, mixes with a solution of pyroxylin (nitrocellulose) various cellulosic substances such as ground cotton fiber, (Ex. Bk., p. 139, ll. 22 to 31), and moulds billiard balls therefrom (Ex. Bk., p. 140, l. 24).

Reference to merely the above should suffice to show that it has been customary in the prior art of plastic compositions to mix a solution of nitrocellulose with a powdered or finely divided filler. The nature of the resulting product desired determines what filler to use. If a white article is desired, zinc white or ivory dust should be employed as in the Eckstein patent, Ex. A-13, and the Hyatt and Blake patent, Ex. A-20, respectively. If a black article is desired, use charcoal powder or plumbago as suggested by Pierson. If a stone-like article is desired, powdered silica should be used as in the Black patent, Ex. A-12, or, as suggested by Griffiths in his laboratory notes (Ex. Bk., p. 42), use carborundum. If a wood-like article is desired, use wood powder or sawdust as in Pierson and Oblasser. If a metallic appearing article is desired metallic powders could be employed as suggested in many of the above patents.

The prior art had developed all this. Any chemist would know from the prior art that to make a plastic composition to harden to resemble wood, all that was necessary was to mix a solution of nitrocellulose with wood powder and if you wished to make the composition less brittle, add a little castor oil and if you wanted to increase the adhesiveness of the composition, add a little gum or resin.

Plaintiff's expert Esselen testified (R. 144):

“Q. Do you believe that it would be obvious to anyone that was familiar with nitro-cellulose plastic compositions that if you wished to increase the flexibility and resilliency of the dried mass and to increase the adhesiveness that all they would have to do would be to add some castor oil and ester gum?

“A. Yes.

“Q. You believe that was true as of 1918?

“A. Yes.”

All that Griffiths did was to take a nitro-cellulose solution and mix it with finely divided wood which was taught by the prior art, and then to add a small amount of castor oil and ester gum. This was also taught by the prior art.

It cannot be urged too strongly that the Pierson and Oblasser patents were overlooked by the Patent Office and that they were not placed in evidence before the Supreme Court of the District of Columbia. The presumption of validity of the patent under these circumstances is greatly weakened, if not entirely destroyed. *Mettler vs. Peabody Engineering Corp.*, 77 F. (2d) 56 (C. C. A. 9):

“The presumption of validity which attends the issuance of letters patent is overcome in this case by the clear evidence of anticipation in the prior art which was not cited or considered by the Patent Office when the application for appellant’s patent was passed on.”

In the same case, this court said:

“As we said in the recent case of *Eagle et al. vs. P. & C. Hand Forged Tool Co.*, #7435 filed January 14, 1935,

‘It is not necessary that all of the elements of the claim be found in one prior patent. If they are all found in different prior patents and no new functional relationship arises from the combination, the claim cannot be sustained. *Keene vs. New Idea Spreader Co.*, 231 Fed. 701; see also *Keszthelyi vs. Doheny Stone Drill Co.*, 59 Fed. (2d) 3.

‘All of the elements of the patent in suit were present in the prior art and combining these elements to make the patented device did not involve invention. Widespread use of the device combining these elements old in the art is evidence of its utility but is not conclusive of its patentable novelty. *Adams vs. Belaire Stamping Co.*, 141 U. S. 539, 542; *McGhee vs. Le Sage & Co., Inc.*, 32 Fed. (2d) 875. Appellant’s patent was anticipated in the prior art and is therefore invalid.’ ”

The mere fact that Pierson did not specify acetone as his solvent or that the oil should be castor oil, or that there should be gum added, is immaterial. The use of these substances in the composition merely brings about their expected functions as taught by the prior art. The foregoing was vigorously urged upon the District Court and strenuously pressed in defendant’s Petition for Rehearing. The lower court being thus pressed to find no invention in the Griffiths patent sought escape in the following manner:

“For one thing, the claims and specifications of the Pierson patent do not disclose the ‘doughy, putty-like’ or ‘dough-like and putty-like’ characteristics of the composition of the claims of the Griffiths patent.” (R. 64.)

But the Griffiths composition is for “molding,” (Ex. Bk., p. 1, l. 5); so were Pierson’s and Oblasser’s compositions. Griffiths’ composition was for “coating” (Ex. Bk., p. 1, l. 4); so was Thompson’s composition, Ex. A. 11. The lower court thus manifestly relies upon a distinction without a difference to uphold the Griffiths claims. The situation is similar to that in *Zenitherm Co. vs. Art Marble Co.*, 56 Fed. (2d) 39 (C.C.A.5), approved in *Green Process Metal Co. v. Washington Iron Works*, 84 Fed. (2d) 892 (C.C.A.9):

“The record abundantly shows that if wood flour or other ‘finely ground vegetable matter’ as named in this claim be covered with a liquid binder, the result is a putty which is not compressible and will not be altered by pressure. This claim directly covers many of the products of the prior art and is thus anticipated by them. *American Fruit Growers, Inc., vs. Brogdex Co.*, 283 U. S., page 1. We therefore hold claims 1 and 4 to be void for want of disclosure and for too great breadth—*too much claim in the claims* and too little specification in the specifications.” (Italics ours.)

**THERE IS NO INFRINGEMENT OF THE
GRIFFITHS CLAIMS**

34

The Court erred in holding that claims 5, 8, 13, 16 and 17 of Griffiths patent No. 1,838,618 have been infringed by either the defendant or intervener.

The defendant's composition only contains 11.5% wood filler whereas Griffiths' composition, as described in his specification, contains from 15 to 30% filler with the filler content being preferably between 20 and 25% (Ex. Bk., p. 1, ll. 57-68). Claims 6, 11, 13, and 18 of Griffiths specify that the filler content shall not be lower than 15% and were accordingly held not to be infringed.

The District Court said in denying the defendant's Petition for Rehearing:

“Clearly, while the Pierson patent may narrow the scope of certain of the claims of the Griffiths patent, it does not anticipate the claims upheld by this Court.” (R. 64.)

But there is no consistency between this position and the position taken by the District Court in its original opinion. In that opinion, claims 6, 11, 15, and 18 were held not infringed (R. 61) because they were limited to the filler content as being not less than fifteen parts or that the filler content was between 15 and 30 parts. Claims 5, 8, 13, 16, and 17 do not contain these limitations. They purport to be broader—to cover “any wood base putty containing a nitrocellulose,

solvent, and wood flour, or their equivalents” (Ex. Bk., p. 51). Apparently they purport to cover a composition wherein the filler is present in less than 15 parts or only 12.5% as in the Liquid Wood composition (Ex. Bk., p. 29) or where the filler content is as high as 40% as in the Concentrated Plastic Wood 1960 (Ex. Bk., p. 41). The result as stated in the Zenitherm case, quoted supra, is that these claims directly cover

“many of the products of the prior art and is (are) thus anticipated by them.”

Claims 5, 8, 13, 16 and 17 are thus anticipated by Pierson and Oblasser. But if they are narrowed by Pierson, as stated by the District Court, then these claims, if valid at all, must be construed in the light of the specification to cover nothing more than what is covered by claims 6, 11, 15, and 18 which were held not to be infringed. If any significance can be attached to the words “doughy” and “putty-like” as was done by the District Court (R. 64) then when are the Pierson and Oblasser compositions, which are for the purpose of molding, “doughy and putty-like” and when are they not? Where is the dividing line between Pierson’s composition and Griffiths’ composition as claimed by claims 5, 8, 13, 16, and 17? If these claims are narrowed by the Pierson patent, they are not infringed, any more so than claims 6, 11, 15, and 18. If any broader, they would be infringed by Pierson’s composition and are likewise anticipated by it.

CONCLUSION

We urge this Court to correct a grievous error committed by the District Court. The District Court has undertaken to uphold claims which are of such vague, indefinite, and functional character as to fail to comply with Sec. 4888 of the Revised Statutes. It is impossible to determine from these claims when a composition is an infringement and when it is not. It is impossible to distinguish these claims, particularly claims 5 and 17, from the disclosures of Pierson and Oblasser. Claims 8, 13, and 16 contain references to castor oil, acetone, and gum, but their use and their functions were taught by the prior art. There is nothing in the alleged Griffiths invention that amounts to an invention over what was fairly taught long ago. The Patent Office denied these claims and even criticised their form as failing to comply with the requirements of R.S. 4888 (Ex. Bk., p. 60).

The Lower Court here in upholding the claims, has been erroneously influenced by the decision of the Judge who granted the patent in ignorance of the requirements of Sec. 4888 R.S., and in ignorance of the Pierson and Oblasser patents.

He has also been unduly influenced by the plaintiff's commercial success which has been largely due to the trade-name and to the enormous amounts of money that the plaintiff has been able to spend on advertising. The record shows, however, that when advertising expenses decreased, the volume of plaintiff's sales de-

creased in direct proportion. The plaintiff has merely been successful in exploiting a composition of the prior art

- (1) because it has a catchy trade-name;
- (2) because it is a successful advertiser; and
- (3) because by reason of having obtained the patent it has successfully intimidated a substantial proportion of the trade (Ex. Bk., p. 51).

These factors do not justify a patentable monopoly.

It is urged that the Lower Court be reversed.

Respectfully submitted,

FRED H. MILLER,
G. E. STEINER,
Attorneys for Appellants.



UNITED STATES CIRCUIT COURT OF APPEALS
FOR THE NINTH CIRCUIT.

—
OCTOBER TERM, 1938. 3
—

No. 8876.

THE PACIFIC MARINE SUPPLY COMPANY
AND
WEBB PRODUCTS CO., INC.,

Appellants,

v.

THE A. S. BOYLE COMPANY,
Appellee.

—
BRIEF FOR PLAINTIFF-APPELLEE.
—

GEORGE P. DIKE,
CEDRIC W. PORTER,
DIKE, CALVER & GRAY,

for the Appellee.

G. WRIGHT ARNOLD,
Seattle, Washington,
Solicitor for Appellee.

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UNITED STATES CIRCUIT COURT OF APPEALS
FOR THE NINTH CIRCUIT.

OCTOBER TERM, 1938.

No. 8876.

THE PACIFIC MARINE SUPPLY COMPANY
AND
WEBB PRODUCTS CO., INC.,
APPELLANTS,

v.

THE A. S. BOYLE COMPANY,
APPELLEE.

BRIEF FOR PLAINTIFF-APPELLEE.

STATEMENT OF THE CASE.

A more complete statement of the facts than is found in appellant's brief is necessary for an understanding of the case.

This is a suit for infringement of letters patent No. 1,838,618, dated December 29, 1931, to Manfred E. Griffiths, for a Plastic Composition, and assigned before issue to the plaintiff, the A. S. Boyle Company of Cincinnati. The application for the patent was filed November 17, 1923.

Claims 5, 8, 13, 16 and 17 were held valid and infringed. Other claims in suit were held not to be infringed and will not be discussed or referred to further.

The material manufactured by the plaintiff is sold under the trade name "Plastic Wood".

The defendant, Pacific Marine Supply Company of Seattle, is charged with infringing the patent in suit by selling "Duratite Wood Dough" manufactured by the intervener, Webb Products Company of San Bernardino, California. In the following pages, the defendant and the intervener, now the appellants herein, are referred to as

the defendants except where it is necessary to distinguish between them.

The case was tried in Tacoma before the Honorable Edward E. Cushman, District Judge. After the trial of the present case and before the decision by the District Court, the same claims of the patent and others were held valid and infringed by the District Court of Massachusetts in a suit entitled *The A. S. Boyle Company v. Harris-Thomas Company*, 18 F. Supp. 177. The District Court of Massachusetts had before it all of the defenses and all of the prior art relied upon in the present case. A copy of the decision in *Boyle v. Harris-Thomas* is printed as an Appendix to this brief, see page 52.

At the trial in the District Court the defendant herein relied on an English publication "Engineering" dated December 9, 1921, as an anticipation of the patent in suit and the plaintiff took the depositions of Griffiths, the patentee, and Murray in London to carry back Griffiths' dates of invention. This defense is not now relied on by the appellant and, therefore, the depositions of Griffiths and Murray and the exhibits attached to them found in the record are no longer of any consequence in the case. Appellants now rely only on the defenses mentioned on page 6 of appellants' brief.

SUMMARY OF ARGUMENT.

The patent in suit is for a plastic composition which, before exposure to the air has the consistency of putty, and after mere exposure to air attains the rigidity and solidity of wood, becoming in effect a grainless wood. When applied to a hole in a piece of wood and allowed to harden, the "Plastic Wood" adheres tenaciously and practically becomes a part of the wood itself. The essential ingredients of Griffiths' composition are nitrocellulose, a volatile solvent, a finely divided wood, *i. e.*, wood-flour. The composition may also contain, and does preferably, a non-drying oil like castor oil, and a resinous body or gum, like ester gum. These toughen the product and render it more adhesive. Some mineral filler such as talc, clay or gypsum may also be substituted for a part of the wood flour. Prior to Griffiths' invention no one had conceived of a material which could be handled like putty and which

after drying would become grainless wood. There was no material available to the public by which a low place or a defective spot in a piece of wood could be built up. The carpenter could cut wood away with his chisel, plane and bit but he could not replace it. He could not add wood. Griffiths gave the public a new tool; he provided for the first time a material by which wood could be built up.

Griffiths' invention was brought to the United States in 1924 under the name "Plastic Wood".* The manufacture and sale of this material was commenced in this country in 1925 by the Addison-Leslie Company, a company organized and controlled by Leslie Soule, who then controlled the Griffiths invention. In the five years from 1925 to 1930 the sales grew from nothing to \$379,602 per year. In 1930 Addison-Leslie Company sold its business and the Griffiths patent to The A. S. Boyle Company, the plaintiff, for \$720,000. The sales dropped with the depression and with competition of imitators like the intervener, but are now about \$300,000 per year. Between two million and two million and a half cans and tubes of "Plastic Wood" are sold to the public each year.

The plaintiff's composition "Plastic Wood" is used for a multitude of purposes, both domestic and industrial. It has replaced putty in many places and it makes possible results never before attainable. The avidity with which it was seized on by the public is conclusive proof that it was both new and useful, in the highest sense of these terms.

Griffiths' invention was the result of a wholly novel concept, viz., that by combining nitrocellulose, wood flour and a volatile solvent, a plastic mass having the characteristics of putty could be made and that when the solvent evaporated from such a mass by mere exposure to the air without heat or pressure it would become a grainless wood and would adhere tenaciously to other substances. Griffiths' concept comprises five essential factors: (1) a putty-like condition before exposure to the air, (2) wood-like properties after exposure to the air, and the three primary ingredients, viz.,

* When the phrase "Plastic Wood" is used in this brief it refers to the composition made under the Griffiths' patent and sold by the plaintiff and its predecessor, Addison-Leslie Company.

(3) nitrocellulose, (4) wood flour and (5) volatile solvent. If any of these factors be absent, Griffiths' concept cannot be realized. Griffiths also found that the toughness and adhesiveness of his material were increased by the addition of non-drying oil (castor oil) and a resinous gum (ester gum or the like); also that acetone was the best solvent. He also realized that, for some purposes, a harder and denser material would be useful so he provided for the substitution of a mineral filler, such as China clay, talc or the like, for a part of the wood flour, while retaining the wood-like properties of the final product. The essentials of Griffiths' invention are well stated in claims 5, 13 and 17 as follows:

"5. A doughy putty-like plastic composition comprising nitrocellulose in a solution containing a volatile liquid, and a finely divided cellulose filler in such proportions as to harden upon mere exposure to air to substantially the rigidity and solidity of wood.

13. A doughy putty-like plastic composition comprising nitrocellulose in a solution volatile in part at least and containing acetone, castor oil, a resinous body, and a finely divided cellulose filler in such proportions as to harden upon mere exposure to air to substantially the rigidity and solidity of wood.

17. A composition of matter for hole filling and filleting, which before exposure to the air is dough-like and putty-like, and contains finely divided wood, nitrocellulose and a volatile liquid, and after exposure to the air has a wood-like rigidity and solidity and is essentially finely divided wood held together by the nitrocellulose."

The intervener's (Webb Products Company) product "Wood Dough" is made of the same main ingredients, nitrocellulose, wood flour and a volatile solvent. As stated on the cans of the intervener's product "Wood Dough", it "handles like putty and hardens into wood". An equal volume of gypsum has been substituted for a part of the wood flour suggested by Griffiths, but the total volume of filler in proportion to the volume of the other ingredients remains the same. Acetone is the chief solvent in

"Wood Dough" as in the Griffiths composition, and castor oil, ester gum and elemi gum have been added to give toughness and adhesive properties. The final composition is essentially the same as Griffiths' in its working properties; it is doughy and putty-like before hardening, and after exposure to the air has the solidity and rigidity of wood. It is essentially "finely divided wood held together by the nitrocellulose" as described in claim 17.

Defendants' counsel take the position that the Griffiths patent is anticipated by the United States patent to Pierson No. 65,267, dated May 28, 1867, and the British patent to Oblasser No. 19,242 of 1892 and further that the properties of nitrocellulose, volatile solvent, non-drying oils, gums and vegetable fillers alone or in combination were so well known that it required only mechanical skill to put them together and produce a putty-like material which would harden into wood. In support of this argument defendants cite a long list of patents. (See page 24 of defendants' brief.)

Defendants' argument is based on a fallacy, for it assumes that the mechanic would start with knowledge of Griffiths' concept that a material which would be putty-like in the first place and later would become essentially a grainless wood could be made with the materials in question. Defendants, therefore, rely on the *ex post facto* wisdom which has been so often condemned by the courts in patent cases. Without Griffiths' concept in mind, the prior art taught nothing; with it in mind, it is, of course, possible to make his composition from the materials mentioned in the prior patents. That plaintiff's position in this regard is correct is proved strikingly by the fact that, notwithstanding the grant of such patents as Pierson's in 1867 and Oblasser's in 1892, the public had to wait until 1920 for "Plastic Wood", and that when it appeared it filled a need so completely that its sales jumped from nothing to over two million cans and tubes in less than six years. If the Pierson patent taught the invention in 1867, as defendants say, it is more than strange that the public waited nearly sixty years before making use of it. But, in fact, Pierson did not describe the Griffiths composition at all. The nearest description is found on page 3, column 1, second full paragraph, but, that paragraph gives a range of proportions which will produce compositions varying

from a thin soupy liquid to a dry powder, and does not suggest a putty-like composition nor one which would dry to a wood-like substance. Even the defendant witness, Webb starting with knowledge of the ingredients of "Plastic Wood" had to make long series of mixtures before arriving at a satisfactory composition based on Pierson's description.

Nor are Oblasser's or Merrick's compositions more helpful—the former's was intended to be shaped in a mould, and the latter to be flexible and rubbery so that it could bend in the sole of a shoe. In neither is there any description of the Griffiths composition nor are proportions or instructions given by which such a composition could be made.

Defendants also argue that the claims of the patent are too broad, vague and indefinite and that the patent is invalid on that account. See Defendants' brief page 7, citing *General Electric Company v. Wabash Appliance Company*, 37 USPQ 466; 304 U. S. 364; 82 L. Ed. 912. In answer it need only be said that in fact the claims of the Griffiths patent define the monopoly clearly and explicitly; that they rely on ingredients and the physical properties of the materials as the means of definition, and that *General Electric v. Wabash* has no application to a state of facts such as the present.

More than the usual presumption of validity resulting from its grant attaches to the patent in suit. It was granted only after a long and bitter contest in the Patent Office and a suit against the Commissioner of Patents under Section 4915 (now U. S. Code, Title 35, Section 63). It has been held valid and infringed by Judge McLellan in the District Court of Massachusetts in *Boyle v. Harris-Thomas Co.*, 18 Fed. Supp. 177, the opinion being unusually thorough and comprehensive.

The patents now relied on by the defendants are in part the same as those relied on by the Patent Office and otherwise of the same general character. They were all before the District Court for Massachusetts. The Griffiths patent is further supported by the fact that the invention has supplied a public need, and has supplanted other materials; that it has become a household necessity, and has given the carpenter a new tool; that it has been copied not only by the defendants but also by at least two dozen other manu-

facturers; that decrees for injunctions have been obtained in three uncontested or slightly contested suits for infringement and finally that its validity has been recognized by numerous companies, including Sears-Roebuck Co., which have ceased the sale of the infringing composition and paid damages, and by the Creo-Dipt Company which was granted a license.

Accordingly, we respectfully submit that the patent in suit describes and claims an invention of more than ordinary merit, that the patent is valid and that the defendants have infringed.

In the following pages, the facts outlined above are first discussed in detail, and then the four alleged errors on which appellants (defendants) now relies are separately answered.

THE PATENT IN SUIT—PLAINTIFF'S EXHIBIT 1.

Exh. Bk. Page 1.

(a) The Disclosure.

Griffiths, in his patent, says (Exh. Bk. p. 1) that his invention "relates to a plastic mass . . . which may be used for many purposes", and he outlines some of the purposes as follows: "by pattern makers for filleting and similar work, by joiners and cabinet makers for filling screw and nail holes, shakes in timbers, openings at joints and for preparing or repairing mouldings and carvings or by shoemakers for building up or repairing lasts" (p. 1, lines 31-7). He says further that his composition "hardens quickly when exposed to the air, adheres firmly to any clean dry foundation, does not blister or powder when exposed to moderate heat and is not affected by water, gasoline or other commonly available liquids" (p. 1, lines 39-44).

The patent is unusually explicit in its directions for the manufacture of the new composition giving five formulae for its production. These are a general formula (p. 1, lines 50-6) with ranges of proportions, two specific formulae for a material made without mineral filler (p. 1, lines 14-27; and p. 1, lines 70-6), a formula using part China clay (p. 2, lines 11-19) and another using pigment (p. 2, lines 27-36).

As to the materials to be used, Griffiths is equally explicit. He says:

“In place of celluloid scrap other forms of nitrocellulose may be used, such as celluloid in the form of sheet or the like.” (Page 1, lines 77–79.)

“In place of castor oil other non-drying vegetable oils may be employed.” (Page 1, lines 80–1.)

“Ester gum may be replaced by other resins and in place of acetone other ketones may be used and if it is desired that the composition shall set or dry quickly such should be of low boiling point, for example methyl acetone.” (Page 1, lines 82–6.)

“The industrial spirit and benzol may be omitted or replaced by other solvents or diluents.” (Page 1, lines 87–9.)

“Other solvents may be used in place of ketones but the latter are preferable. As fillers any suitable filling materials may be used but ground wood flour is preferable though in addition there may be added other ground cellulose material, a mineral filler, such as china clay, talc, powdered silica or the like.” (Page 1, line 90; page 2, line 7.)

The formula in the first column of page 1 is almost exactly that used today by plaintiff in the manufacture of its commercial product which has attained such a wide sale under the name “Plastic Wood”.

The patent also describes the method of putting together the several ingredients to make the product ready for use and explains how it hardens when exposed to the air (p. 1, lines 38–40). He also says that it “adheres firmly to any clean dry foundation”.

Anyone into whose hands this patent may come will find in it full and complete directions for making Griffiths’ preferred composition.

(b) Griffiths’ Novel Concept.

Griffiths envisioned an entirely new material—a putty that would turn into wood and therefore which could be used to build up a piece of wood. He envisioned a piece of wood without grain which could be cut with a chisel, which could be sawn and drilled,

which would hold nails and screws like real wood but which could be handled and applied like putty. This was Griffiths' concept. It is stated by Dr. Esselen, plaintiff's expert, as follows:

"The material, . . . is of the general consistency of dough or putty, and after it has dried it has the general properties of wood with the exception that it has no grain." (Rec. p. 112.)

Griffiths made his vision a reality by combining nitrocellulose, volatile solvent and wood flour, and improved the physical properties of the material by the addition of castor oil and a resinous body.

These three essential ingredients will make satisfactory material although it will not adhere to other substances as well nor be as tough or adhesive as it would be if it contained proper percentages of a resin and a non-drying oil.

Soule testified:

"We have [made] one or two small batches of the Griffiths composition, omitting the castor oil and the ester gum, using only the three ingredients, viz., the solvent wood flour, and the nitro-cellulose or film scrap. Such material, in appearance, was identical with our regular material that contained ester gum and castor oil but it was more brittle and did not have as good adhesive qualities. It was however a practical and useful material. It was essentially the same as Plastic Wood and could be used, but it was not so satisfactory as the material containing the ester gum and castor oil." (Rec. pp. 156-157.)

The Griffiths' concept, therefore, included five necessary factors which have already been enumerated. They are as follows:

- (1) The condition before drying—it must be putty-like.
- (2) The condition after drying—it must have substantially the rigidity and solidity of wood after mere exposure to the air.
- (3) It must contain *nitrocellulose*.
- (4) It must contain *finely divided cellulose* filler such as wood flour, and
- (5) It must contain *a volatile solvent* such as acetone.

In its more specific form Griffiths' concept also included resinous materials, non-drying oil and a small amount of some mineral

filler such as China clay to improve the quality of the final product. Unless a material corresponds to all five factors of Griffiths' concept, it will not infringe the claims. Likewise, the claims will not be anticipated by any prior patent, publication or public use unless all given factors are clearly and definitely present.

The presence or absence of the additional or non-essential materials (non-drying oil, ester gum, and mineral filler) is relatively unimportant.

(c) The Materials Employed by Griffiths.

Nitrocellulose. In the patent in suit (Exh. Bk. p. 1) Griffiths uses nitrocellulose as a general term but says "in place of celluloid scrap *other forms* of nitrocellulose may be used as celluloid in the form of sheet or the like" (page 1, line 2). Therefore, the patent gives explicit direction as to the kind of nitrocellulose to be used.

Volatile Solvents. For solvents, Griffiths mentions a wide variety. He says:

" . . . in place of acetone other ketones may be used and if it is desired that the composition shall set or dry quickly such should be of low boiling point, for example methyl acetone.

The industrial spirit and benzol may be omitted or replaced by other solvents or diluents.

Other solvents may be used in place of ketones but the latter are preferable." (Page 1, line 83, to page 2, line 1.)

Filler. In the primary formula, page 1, lines 14 to 27, Griffiths specifies "finely ground wood flour as a filling material"; in the third formula, page 2, lines 70 to 76, he specifies wood flour; and in the two formulae on page 2 he specifies wood flour and China clay in the first and wood flour and pigment in the second.

With regard to the fillers to be employed he makes the following general statement:

"As fillers any suitable filling materials may be used but *ground wood flour* is preferable *though in addition* there may be added other ground cellulose material, a mineral filler such

as China clay, talc, powdered silica or the like". (Page 2, lines 1-7.)

Griffiths intended that wood flour or a similar finely divided cellulose material should be the basic filler of his material and that "in addition" or as a substitute for a part of the wood flour certain finely divided mineral substances could be added. Such substances tend to modify the characteristics of the final product slightly, but Griffiths emphasis on wood flour and the fact that it is the principal filler in all five formulae show that he wished to produce wood-like qualities in the final product.

The mineral substances which can be used in place of wood flour as a filler are relatively very heavy; therefore they occupy much less space than wood flour. For instance, the bulk of gypsum used by defendants is approximately one-fifth that of wood flour (Esselen, Rec. pp. 40-41); or, stated in another way, weight-for-weight, gypsum occupies about one-fifth the space of wood flour. China clay, powdered silica and the like are still heavier. Griffiths gives his proportions in terms of parts by weight; consequently the proportions of mineral fillers appear about five times greater than they would if they were stated in terms of volume or bulk. Griffiths contemplated the use of relatively small volumes of mineral filler.

(d) The Claims.

Claims 5, 8, 13, 16 and 17 are in suit.

"5. A doughy putty-like plastic composition comprising nitrocellulose in a solution containing a volatile liquid, and a finely divided cellulose filler in such proportions as to harden upon mere exposure to air to substantially the rigidity and solidity of wood.

8. A doughy putty-like plastic composition comprising nitrocellulose in a solution containing a volatile liquid, a *non-drying oil* and a finely divided wood filler in such proportions as to harden upon mere exposure to air to substantially the rigidity and solidity of wood.

13. A doughy putty-like plastic composition comprising

nitrocellulose in a solution volatile in part at least and containing acetone, *castor oil*, a resinous body, and a finely divided cellulose filler in such proportions as to harden upon mere exposure to air to substantially the rigidity and solidity of wood.

16. A doughy, putty-like plastic composition comprising nitrocellulose in a solution containing a volatile liquid, a *non-drying oil*, and a *resinous body*, and a finely divided wood filler in such proportions as to harden upon mere exposure to air to substantially the rigidity and solidity of wood.

17. A composition of matter for hole filling and filleting, which before exposure to the air is dough-like and putty-like, and contains finely divided wood, nitrocellulose and a volatile liquid, and after exposure to the air has a wood-like rigidity and solidity and is essentially finely divided wood held together by the nitrocellulose."

Claim 5 specifies the five essential factors of Griffiths' invention, namely, (1) a doughy putty-like plastic comprising (2) nitrocellulose in a solution containing (3) a volatile liquid (4) a finely divided cellulose filler and (5) hardening "upon mere exposure to air to substantially the rigidity and solidity of wood". This is a basic claim to Griffiths' invention.

Claim 17 is much the same as claim 5 but the invention is stated in quite different language and from a different point of view. This claim differs from the others in that it says that the final product "is essentially finely divided wood held together by the nitrocellulose".

Claims 8, 13 and 16 are more specific claims since they include as elements the "non-drying oil", "castor oil", and "a resinous body", *i. e.*, ester gum or the like.

Infringement.

The alleged infringing material sold by the defendant, Pacific Marine Supply Company, and manufactured by the Intervener, Webb Products Company, is called "Duratite Wood Dough". A specimen of it was introduced as Plaintiff's Exhibit 47.

Intervener's answer to interrogatory 7, Rec. page 45, gives the analysis of Duratite Wood Dough as follows:

"The correct analysis of Duratite Wood Dough is as follows: Solvent, 41% by weight; nitrocellulose 10.5% by weight; gums and oils, 5.7% by weight; filler, 11.5% by weight; inorganic materials, 31.3% by weight."

On cross examination Mr. Webb gave the formula from his work sheet as follows:

"It is chemically pure acetone, ester gum, gum elemi, benzol, film of three different nitrations, dibutyl, phthalate and castor oil. We use as fillers finely ground wood fiber 11 percent, inert material 30 percent," (Rec. p. 297.)

Dr. Esselen identified the inert material as gypsum (Rec. p. 116). He also stated that the bulk of wood flour is approximately five times that of gypsum "the wood flour taking up approximately five times as much space as the equal weight of gypsum" (Rec. p. 119). This is illustrated by the two bottles which are Plaintiff's Exhibits 35 and 45 and which contain equal weights of wood flour and gypsum (Rec. pp. 119-120). The 31.3 parts of gypsum referred to in the answer to the interrogatory has a bulk of only a little more than one-half that of the 11.5 parts of wood flour (Rec. p. 120).

"Duratite Wood Dough" has essentially the consistency of "Plastic Wood" before drying (Esselen, Rec. p. 120). See also Plaintiff's Exhibit 47. After hardening, it becomes a substance resembling wood* and can be used in the same way as "Plastic Wood" (Esselen, Rec. p. 120).

As already stated the formula for defendants' "Duratite Wood Dough" given in the Answer to the Interrogatories is as follows:

Celluloid scrap (nitrocellulose)	10.5%
Oils & Gums	5.7
Solvents	41.
Wood Flour	11.5
Gypsum	31.3

* Compare the two fillings in Exh. 46.

Since the bulk of a given weight of powdered gypsum is about one-fifth that of an equal weight of wood flour, 31.3 parts by weight of mineral filler have a volume equal to 6.26 parts of wood flour. This gives the following proportions—

Total filler on basis of volume:

Wood flour	11.5	
Gypsum	6.26	17.8
Nitrocellulose		10.5
Oils & Gums		5.7
Solvents		41.
		<hr/> 75.0%

If we convert the formula given in the first column of page 1 of the Griffiths patent into percentages of the whole to place the Griffiths and the Duratite formulae on a comparable basis, we have—

<i>The Patent in Suit.</i>		<i>Defendant's Composition.</i>	
Wood flour	23.1	Wood flour	15.3
		Gypsum	8.3
Total filler	23.1		<hr/> 23.7
Nitrocellulose	13.		14.
Oils & Gums	10.		7.6
Solvents	53.9		54.7
	<hr/> 100.		<hr/> 100.
Total		Total	

The defendants' composition therefore contains almost identical proportions of the same ingredients, the only difference being that the defendants have replaced a part of the wood flour by gypsum, while retaining enough wood flour to give the product wood-like properties.

As to the gums and oils, "Duratite Wood Dough" contains both castor oil and ester gum as suggested by Griffiths. In addition it contains gum elemi which is the equivalent of ester gum. Castor oil is a non-drying oil and the gums are resinous bodies. In addition to the above mentioned ingredients "Duratite Wood Dough"

also contains dibutyl phthalate (Rec. p. 262) which is a plasticizer and is the equivalent of castor oil.

The Claims Applied to Defendants' Composition.

The claims require very little discussion.

Claim 5 is as follows:

"5. A doughy putty-like plastic composition comprising nitrocellulose in a solution containing a volatile liquid, and a finely divided cellulose filler in such proportions as to harden upon mere exposure to air to substantially the rigidity and solidity of wood."

Defendants' "Duratite Wood Dough" contains nitrocellulose (celluloid scrap). It contains a volatile solvent, *i. e.*, acetone and benzol. It also contains wood flour in such proportions that on mere exposure to the air, the mixture hardens to substantially the rigidity and solidity of wood.

Claim 8 specifies a non-drying oil. Defendants' composition contains castor oil, which is a non-drying oil.

Claim 13 specifies acetone, castor oil and a resinous body. "Duratite Wood Dough" contains acetone, castor oil, ester gum and gum elemi.

Claim 16 is substantially like claim 8 except that it includes also a resinous body. "Duratite Wood Dough" contains ester gum which is a resinous body.

Claim 17 is as follows:

"A composition of matter for hole filling and filleting which before exposure to the air is doughlike, and putty-like, and contains finely divided wood, nitrocellulose and a volatile liquid, and after exposure to the air has a wood-like rigidity and solidity and is essentially finely divided wood held together by the nitrocellulose."

When "Duratite Wood Dough" has hardened, it is "essentially finely divided wood held together by nitrocellulose".

We respectfully submit that all the claims sued upon are infringed.

**FACTS WHICH SUPPORT THE VALIDITY OF THE
PATENT IN SUIT.**

**A. GREAT COMMERCIAL SUCCESS OF
GRIFFITHS' COMPOSITION.**

**1. The Introduction of Plastic Wood and the Growth
of the Business.**

Manfred E. Griffiths, the patentee, is an Englishman employed by the Imperial Chemical Industries as a research chemist (Rec. p. 334). He made the invention in 1920 (Rec. p. 336). The first information in regard to the product was brought to the United States by C. Tennant & Sons Company and Harrison White, Inc., in the fall of 1924 (Soule, Rec. p. 155). In May, 1925, Leslie Soule organized the Addison-Leslie Company and secured a license to manufacture "Plastic Wood" in the United States (Rec. p. 155). The Addison-Leslie Company put the new material on the market under the name "Plastic Wood" (Rec. p. 155). The present formula of "Plastic Wood" is practically identical with the first formula given in the Griffiths patent, the only difference being in the solvent employed (Rec. p. 156). The annual sales of "Plastic Wood" have been as follows:

From May 25, 1925 to December 31, 1925	\$12,759
For the year 1926	58,024
For the year 1927	140,449
For the year 1928	258,464
For the year 1929	378,965
For the year 1930	379,602

(Soule, Rec. p. 162.)

For the year 1931	298,000
For the year 1932	209,000
For the year 1933	206,000
For the year 1934	278,000
For the year 1935	309,000

Total

\$2,527,663

(Silbersack, Rec. p. 170.)

In the summer of 1930 the plaintiff, The A. S. Boyle Company, purchased the Addison-Leslie Company, together with the application for the patent in suit, paying approximately \$720,000 (Soule, Rec. p. 167, and Silbersack, Rec. p. 169). The advertising expenditures for the sale of "Plastic Wood" have averaged about \$50,000 a year. (See Stipulation attached to Soule's deposition, Rec. p. 168, and Silbersack, p. 170.)

This apparently large amount of advertising was necessary because the product was an entirely new one and it was necessary to tell the public about its properties and its uses. Soule testified as follows:

"The particular purpose of the advertising done by the Addison Leslie Company was to acquaint the potential users of Plastic Wood with what we considered to be an entirely new and revolutionary product. We had to find the field for the marketing of the product, and to acquaint the potential users with the fact that there was such a product." (Rec. p. 167.)

The plaintiff sells from two to two and one-half million tubes or cans of "Plastic Wood" annually (Silbersack, Rec. p. 170). The material is sold in tubes, in quarter pound cans, in one pound cans and in five and twenty-pound drums (Silbersack, Rec. p. 170).

Commercial Success is Persuasive Evidence of Patentability.

The marked commercial success of a new product, such as that which attended the introduction of "Plastic Wood" is persuasive evidence of invention, see the decision of this Court in *Bankers' Utilities Co., Inc. v. Pacific Nat. Bank et al.*, 18 F. (2d) 16, March 28, 1927, in which Judge Dietrich said (p. 18) :

"In their position plaintiffs are fortified by the presumptions attending a patent (*Wilson & Willard Mfg. Co. v. Bole* (C. C. A.) 227 F. 607; *Heinz Co. v. Cohn* (C. C. A.) 207 F. 547; *San Francisco C. Co. v. Beyrle* (C. C. A.) 195 F. 516), and by the

fact that their device is a commercial success and has brought on imitation. (Application of McClaire (C. D.), 16 F. (2d) 351; Sandusky v. Brooklyn Box Toe Co. (D. C.) 13 F. (2d) 241; Carson v. Am. Smelting Co. (C. C. A.) 4 F. (2d) 463; Murphy Wall Bed Co. v. Rip Van Winkle Wall Bed Co. (D. C.) 295 F. 748; Globe Knitting Works v. Segal (C. C. A.) 248 F. 495; Morton v. Llewellyn (C. C. A.) 164 F. 697."

See also:

Eibel Process Co. v. Minnesota & Ontario Paper Co., 261 U. S. 45 at 56.

The Barbed Wire Patent, 143 U. S. 275 at 282.

Smith v. Goodyear Dental Vulcanite Co., 93 U. S. 486.

Temco Electric Motor Co. v. Apco Mfg. Co., 275 U. S. 319.

In the latter case the Supreme Court said:

"The district judge in Ohio in the K-W Ignition case was affected in his decision, that the Thompson patent involved invention, *by the way in which the public eagerly took it and its marked success*, and so, indeed was the Circuit Court of Appeals of the Sixth Circuit. **So are we.**"

Furthermore when "Plastic Wood" was first put on the market there was no material which would perform the same functions as the Griffiths material.

"At the time I put the Griffiths Plastic composition on the market, as far as I know there was no other material which would perform substantially the functions of the Griffiths composition. There was no other material which could be compared in any way with 'Plastic Wood' to my knowledge. The nearest was ordinary lead putty and certain mineral fillers. They were the only things on the market, to my knowledge, and they cannot be compared with 'Plastic Wood'.

The Griffiths' composition has replaced putty and mineral crack fillers, and in furniture work has replaced stick shellac." (Soule, Rec. p. 161.)

See also Silbersack, Rec. page 170:

“In my contact with the hardware trade I knew of no other product which was sold for that same purpose by the trade.

.

I was in contact with the hardware trade more or less regularly as sales manager of The A. S. Boyle Company . . . From Maine to California.”

See also Miller, Rec. page 189.

“This is the first artificial wood I know of.”

This resume of the evidence shows that the material made under the Griffiths formula and referred to in this case as “Plastic Wood” has had a total sale of slightly over two and one-half million dollars in the ten years during which it has been on the market. There was nothing like it on the market when it was introduced. The sales climbed rapidly until they were checked by the flood of infringements and imitations which will be referred to later. “Plastic Wood” has become a household word. Some of the many uses to which it has been put will now be outlined.

2. The Uses of Plastic Wood.

The Griffiths composition sold by the plaintiff under the name “Plastic Wood” has so many uses that it is difficult to enumerate them all. These facts are not disputed so we state them shortly. Soule mentioned the following uses of “Plastic Wood”:

Filling dents and cracks in cabinet work.

Repairing and changing wood and metal patterns and core boxes.

Filling dents in automobile bodies.

Covering bolt and rivet heads.

In boat building, in place of wooden plugs to cover countersunk screw heads; for deck inlays; repairing rotten stems, keels and planking; for boat models.

Restoring school desks which have been carved by pupils.

Repairing worn stair treads (Soule, Rec. p. 157-8).

Mr. Silbersack said:

“Carpenters and painters are quite large users of ‘Plastic Wood’. Many carpenters carry it in their kits all the time. Carpenters find it particularly useful because practically all the tools they carry in their kits are tools for taking off wood. ‘Plastic Wood’ is one of the few items they have for putting wood on—or the only item they have, I should say.” (Rec. p. 174.)

Miller, the plaintiff’s sales representative in Seattle, testified that “Plastic Wood” enabled cooperage and lumber companies to fill up knot holes in barrels and planks and thus save them from rejection (Rec. pp 188).

This great variety of uses is possible because “Plastic Wood” will stick to any clean surface, and, after hardening, has all the properties of wood. It can be sawn, chiselled, turned and bored like wood; it will not split and holds nails and screws better than natural wood (Soule, Rec. p. 158–9).

The Griffiths composition provided a means for doing many things which had not previously been done, for instance, for altering or repairing pattern-maker’s patterns and core boxes, for repairing school desks, for repairing or altering shoe lasts, for repairing dents in automobile fenders and bodies. In some cases the Griffiths composition has supplanted other materials, for instance, putty made of whiting and linseed oil and wood plugs to cover the heads of nails and screws.

The chisel, the knife, the plane, the auger and file all remove wood; Griffiths’ composition, “Plastic Wood” gives the carpenter the means of adding on wood.

We submit that the tremendous commercial success of the Griffiths’ composition, its immediate acceptance by the public, the innumerable uses to which it is put every day, its universal presence in carpenter’s kits and household tool closets, the fact that it has replaced putty and wood inlays in many places, that it performs functions never before performed and its undoubted utility, are convincing evidence that Griffiths made a most important invention.

We submit that these facts, none of which are disputed, are to be taken into consideration on the questions of invention and of the scope which is to be given to the claims.

3. Having Made an Advance Which Has Proved Strikingly Useful, the Patentee is Entitled to Liberal Treatment.

The evidence in this case shows that Griffiths gave to the public a composition which was not available previously; that it was instantly seized upon and filled an important need; and that it has been imitated by the defendant and many others. Whether or not the Griffiths patent is a pioneer need not be discussed. The advance made by Griffiths certainly entitles the patent to liberal treatment. The treatment to be accorded a patent under such circumstances was stated by the Court of Appeals for the Second Circuit (Judge Ward) in *O'Rourke Engineering Construction Co. v. McMullen*, 160 F. 933 at 938-9:

“The principal question in such cases is: Has the patentee added anything of value to the sum of human knowledge, has he made the world's work easier, cheaper, and safer, would the return to the prior art be a retrogression? When the court has answered this question, or these questions, in the affirmative, the effort should be to give the inventor the just reward of the contribution he has made. The effort should increase in proportion as the contribution is valuable. Where the court has to deal with a device which has achieved undisputed success and accomplishes a result never attained before, which is new, useful and in large demand, it is generally safe to conclude that the man who made it is an inventor.

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The keynote of all the decisions is the extent of the benefit conferred upon mankind. Where the court has determined that this benefit is valuable and extensive it will, we think, be difficult to find a well considered case where the patent has been overthrown on the ground of nonpatentability.”

The foregoing quotations from *O'Rourke v. McMullen* were

adopted by this Court (Judge Sawtelle) in *Butler v. Burch Plow Company*, 23 F. (2d) 15 and 24. After adopting Judge Ward's statements quoted above, the Court said (p. 26) :

"The evidence shows that prior to the year 1917 *there was nothing known to the art which would perform the functions of the Burch spreader*. Even if all the elements of the combination had been used before and the functions of each were well known to the art, we think they have never been combined for effectuating the purpose accomplished by the appellee."

The treatment to be accorded to a patent under similar circumstances is well illustrated by that given to the Carson patent by this Court in *Carson v. American Smelting and Refining Co.*, 4 F. (2d) 463. That decision contains no short statement suitable for quotation, but we commend the decision as a whole to the attention of the Court.

B. PRIOR LITIGATION, AND PUBLIC ACKNOWLEDGEMENT OF THE GRIFFITHS PATENT.

The prior litigation relating to the Griffiths' invention confirms counsel's belief that Griffiths made an important invention and that the patent is entitled to a scope commensurate with its importance.

Griffiths v. Robertson, Commissioner of Patents. Adequate claims covering Griffiths' invention were refused by the Patent Office, which failed to appreciate Griffiths' invention. Accordingly, suit was brought against the Commissioner of Patents to compel him to grant a proper patent. This suit was brought in the Supreme Court of the District of Columbia under R. S. 4915, now Title 35, U. S. Code, Sec. 63, and was tried before Judge Luhring. The Bill of Complaint, the Answer, the Findings of Fact and Conclusions of Law and the Decree are in evidence in the case at bar, being Plaintiff's Exhibits 51, 52, 53 and 54 (Exh. Bk. pp. 7-22). They show that many of the patents relied on by the defendants in the present case are the same as those which were relied upon by the government in *Griffiths v. Robertson*. After trial in open court, Judge Luhring made the following Findings of Fact:

"8. That none of the patents cited by the Patent Office discloses a composition of matter capable of use, without modification amounting to complete reorganization, for the purposes for which 'Plastic Wood' has been used; and that such modifications could not have been made without the exercise of the inventive faculty.

9. That the Griffiths' composition sold under the name of 'Plastic Wood' has achieved a striking commercial success.

10. That Griffiths' composition sold under the name of 'Plastic Wood' has supplanted putty for many commercial and domestic uses and has been used for many purposes for which previously there was no suitable material.

11. That the composition of matter discovered by Griffiths, to wit, a doughy, putty-like plastic comprising nitrocellulose in a solution containing a volatile liquid and a finely divided cellulose filler in such proportions as to harden upon mere exposure to air to substantially the rigidity and solidity of wood, was, before November 17, 1923, when Griffiths filed the application here in issue, a new and useful discovery and was not disclosed by any of the prior patents cited by the Patent Office.

12. That other persons, firms, and corporations have since the filing of the Griffiths application, November 17, 1923, placed upon the market imitations of and substitutes for the Griffiths' composition of matter all of which contain the three essential ingredients to wood: nitrocellulose, volatile solvent and cellulose filler.

13. That the plaintiffs are entitled to claims broad enough to prevent the manufacture of compositions of matter containing only the three so-called essential ingredients.

14. That the claims allowed by the Patent Office are limited to five ingredients and therefore do not adequately protect the plaintiff, Griffiths' invention." (Exh. Bk. pp. 20-1.)

The patent was then granted in accordance with the decree of the court.

Boyle v. Sears Roebuck & Co.; Boyle v. Western Auto Supply Co.; Boyle v. Sheffield and Boyle v. Yale Rose et al., doing business as Yale Hardware Co. These were suits for infringement of the Griffiths patent. In *Boyle v. Sears Roebuck* (District of Connecticut) a consent decree dismissing the bill without prejudice was entered, but Sears Roebuck "paid us a sum based on the merchandise they had sold" (Silbersack, Rec. p. 176). The Western Auto Supply Co. case (District of Connecticut) was also settled by agreement of counsel and the defendant paid "about \$700" (Silbersack, Rec. p. 176). In the Sheffield case (District of Ohio) there was a consent decree ordering an injunction and the payment of \$200 as costs (Plff's. Exh. 55; Exh. Bk. p. 44). In the Yale Hardware case (District of Connecticut) an injunction was granted after a trial in open court. (See Plff's. Exh. 56; Exh. Bk. p. 47). There was no written opinion in this case.

These cases show that the several infringers have acknowledged their infringement and made settlements for past damages, except in the case of Yale Hardware Co., which was enjoined after trial. This recognition of the rights of the plaintiff in the Griffiths patent is persuasive of its validity.

Boyle v. Harris-Thomas Company, 18 F. Supp. 177. This was a suit for infringement of the Griffiths patent brought in the District Court of Massachusetts. The case was tried after the present case but was decided on February 8, 1937 before the decision of the District Judge herein and is referred to in his opinion. In *Boyle v. Harris-Thomas*, Judge McLellan wrote a careful, elaborate opinion and held claims 5, 6, 8, 11, 13, 15, 16, 17 and 18 valid and infringed. The record in that case covered all the issues raised in the present case, but the defendant cited and relied on a number of prior art patents and publications in addition to those relied on by the defendants herein. After the decision, an appeal was taken but was subsequently dropped by the defendant. Judge McLellan's opinion is referred to hereinafter in connection with the discussion of the prior art. The opinion which is printed in the Appendix to this brief is persuasive of the correctness of appellee's position in the present case.

Many Infringers have Stopped Upon Notification. The Creo-Dipt Co. was granted a license to make the plastic composition covered by the Griffiths patent and the company "paid us a back royalty on the products they sold before they were granted a license" (Silbersack, Rec. p. 173).

The following companies which were manufacturing products believed by the plaintiff to be within the scope of the patent immediately discontinued when the patent was issued and they were notified of the claim of infringement:

Arco Synthetic Wood, made by Arco. Handi Wood, made by Creo-Dipt Co. Dandee Wood Putty, made by Dandee Mfg. Co. Flexwood, made by General Paint Co. Patchwood, made by A. C. Horn Co. Plastic Wood, made by Imperial Laboratories. Patching Wood, made by Janney-Sample Hill Co. Limber Wood, made by Limber Products Co. Dum Dum, made by Miami Rubber Co. Workable Wood, made by T. H. Nevins. Renew Wood, made by Northern Hardware Co. Wood Paste, made by Oakley Paint Manufacturing Co. Patching Wood, made by Tieman Stove & Hardware Co. Tillette Canned Wood, made by Tillette Co. Wood Plastic, made by Tinker Wood Works. Tremco Plastic Lumber, made by Tremco Manufacturing Co. Patching Wood, made by Shapleigh Hardware Co. Fixit Mending Wood, made by Wallace Paint & Varnish Co. (Freeman & Gibson Corporation). Magic Wood, which was sold by Woolworth Company (see Silbersack, Rec. p. 173).

The record shows that upwards of twenty-five companies copied the Griffiths composition and that most of these have subsequently recognized the Griffiths patent. The defendants themselves have also copied Griffiths' composition. **Imitation is often the best evidence of invention.** We respectfully submit that the persistent imitation of the Griffiths composition by the large number of competitors, coupled with the fact that no composition of this kind was on the market prior to the appearance of "Plastic Wood", is almost conclusive proof of the novelty of the Griffiths invention.

Imitation by Others is Persuasive Evidence of Invention.

This proposition is stated in Corpus Juris as follows:

“The fact that a method or device has been copied or imitated by others after its disclosure is admissible to show that invention was involved in its production.” 48 C. J. Patents, Sec. 96.

In *Bankers' Utilities Co., Inc. et al., v. Pacific Nat. Bank et al.*, 18 F. (2d) 16, just quoted above, this Court said:

“In their position plaintiffs are fortified . . . by the fact that their device is a commercial success *and has brought on imitation.*”

In *Brammer v. Schroeder*, 106 F. 918, 926, the Circuit Court of Appeals for the Eighth Circuit said:

“The use of such a sliding cylinder to impart motion to the shaft, in combination with the other parts of this machine designated in the first claim of this patent was new in the art; and the facts that its usefulness is not denied, and that the appellant has seen fit to depart from the many devices open to his use and to adopt that of appellee strongly indicates that it marks a distinct and useful advance in the progress of this art.”

See also:

Salt's Textile Mfg. Co. v. Tingue Mfg. Co., 227 Fed. 115 at 117 (District of Connecticut).

Kurtz v. Belle Hat Lining Co., 280 Fed. 277, 281 (C. C. A. 2).

Sandusky v. Brooklyn Box Toe Co., 13 F. (2d) 238, 241, (D. C. E. D. N. Y., Judge Inch).

REPLY TO DEFENDANT-APPELLANT'S ARGUMENTS.

That the Claims Held to be Valid are Anticipated by the Patents to Pierson and Oblasser Exhs. A7 and A10.

Defendants' argument on this point (see Appellant's brief, p. 13) is in effect that since the Pierson and Oblasser patents give certain formulae for the manufacture of plastic compositions and describe the use of the same materials and since the Griffiths composition lies within the two extremes of the ranges of amounts of materials given by the patentees, a person skilled in the art can make the Griffiths composition by following the teaching of either of these two patents.

This argument is fallacious because it assumes that a person skilled in the art would know that by putting together nitrocellulose, volatile solvent and wood flour, he could make putty which on hardening would become essentially a grainless wood. The Griffiths invention lay primarily in his conception that such a material could be made. **Appellant's argument assumes a knowledge of Griffiths' concept.** Given that conception, it is, of course, easy to discover in the prior art ways of making it. To be an anticipation, a prior art patent must not only describe the materials and proportions which will produce Griffiths' composition but also inform the public that a putty can be made from them which on mere exposure to the air will become a grainless wood. No prior patent does this.

The Pierson Patent No. 65,267, May 28, 1867, Exhibit Book, page 71.

This patent is defendants' chief reliance. Defendants' expert Roller said "I think the Pierson patent is the best one" (Rec. p. 247).

The Pierson patent was granted 69 years ago. It describes the manufacture of nitrocellulose and refers to it throughout as "my plastic" (p. 71, column 2, line 6). In the Pierson patent plastic is synonymous with nitrocellulose. Pierson mixes his "plastic" with all sorts of materials to produce four classes of compounds which he

refers to as varieties. Variety 4 includes several sub-varieties of which defendants rely on the sub-variety which is described in the second full paragraph of the first column of page 3 of the patent (Exh. Bk. p. 72). The entire description relied upon by the defendants is as follows:

“In carbons, &c. take plastic, one part; alcohol four, ether, four; charcoal powder, one to sixteen. Lamp black, or plumbago may be substituted for the charcoal, sawdust, straw, or any vegetable powder or fiber may also be substituted for the charcoal, and oil may often be added to advantage, useful for statuary and moldings, and some forms for paints, and some for marking-pencils, and for other purposes.”

This paragraph describes a material made from “plastic” (nitro-cellulose), alcohol, ether and charcoal powder and suggests that sawdust or any vegetable powder or fiber may be substituted for the charcoal. The charcoal powder, sawdust or vegetable powder is the filler. As shown by the calculations in appellant’s brief, page 16, this paragraph of the Pierson patent describes a material in which the filler varies from 10 to 64% of the whole but the patent gives no proportions to produce any particular compound. In other words, the patent says that a composition may be made by using from 10 to 64% of filler but it does not tell what the composition will be like when any particular percentage is employed. If one part of filler is used, *i. e.*, ten percent, the resulting product is “quite fluid” (Rec. p. 254), while if 16 parts of filler are used, *i. e.*, sixty-four percent, a dry mass is produced (Rec. p. 259).

The exact proportions to be used to produce a particular product or consistency can be discovered only by a series of experiments conducted for the purpose of arriving at a particular result which must be definitely in the mind of the experimenter before beginning his work. The patent contains nothing to suggest to the experimenter the end to be sought.

Consequently, the Pierson patent fails to give any hint of the real invention made by Griffiths, much less a clear, full and accurate description of the Griffiths invention.

Defendants argue that because the patent in suit refers to the plastic composition as being suitable for molding and because the

paragraph from the Pierson patent, on which the defendants rely, states that the mixture is "useful for statuary and *moldings*", they are justified in arguing that the Pierson patent discloses Griffiths' patented invention. This argument overlooks two essential facts, *first*, that the paragraph in question also describes the mixture as being useful "for paints and some for marking-pencils and for other purposes" and fails to point out what proportion of filler is necessary for paint, what for statuary, and what for marking-pencils; and *second*, because the entire argument assumes the knowledge of Griffiths' inventive concept which must form the basis for the determination of the proper proportion of filler to be used.

The Pierson Patent Fails to Disclose Griffiths' Fundamental Concept.

As already stated Griffiths' fundamental concept was of a doughy putty-like material which could be handled like putty and which, on hardening by mere exposure to the air, would become practically a grainless wood. Griffiths pictured such a material and that it could be made from wood flour held together by nitrocellulose. He was the first to conceive the possibility of making a putty which would turn into a grainless wood and of making it from these well-known materials.

Pierson had no such idea. He had in mind many new products such as cotton batting soaked in nitrocellulose, coatings for fabrics, and cordage, paints and lacquers, waterproofing materials, coatings for wood, brick and iron, calcareous compounds, roofing paints, statuary, stucco, adhesive plaster, varnishes for papers, etc. etc. However, in spite of the great number of things of which he thought, he did not think of making a mixture which would produce a grainless wood nor does he give a specific formula which when followed will produce such a material. The patent is totally silent as to Griffiths' invention. It is not possible to find in the Pierson patent an approximation of it, even when the patent is read with the knowledge of the Griffiths invention.

We respectfully submit that the defendants rely on *ex post facto* wisdom when they argue that the Pierson patent contains a disclosure of the invention.

Even if One Starts with Griffiths' Fundamental Concept It Requires Experimentation to Make a Material Comparable to the Griffiths Composition from the Ingredients Mentioned in the Pierson Patent.

This was proved both by defendants' expert, Roller, and by Mr. Webb, President of Webb Products Company. Under direction of Mr. Miller, defendants' counsel, Webb and Roller made a series of specimens which are said to be in accordance with Variety 4c of the Pierson patent, and were intended to reproduce "Plastic Wood" (Roller Rec. pp. 247-8, and Webb Rec. pp. 298-299). Roller said he started "*assuming that I knew what Plastic Wood is*" (Rec. p. 248), that he chose the amounts and proportions "with the intention of getting something which would be a plastic material" (Rec. p. 256) and that he was "trying to produce a putty-like material" (Rec. p. 260). Even starting with this intention, much experimenting was required, as will be pointed out.

It is unnecessary to discuss each of the experiments which Webb and Roller made. They used two kinds of nitrocellulose (Rec. p. 256) and made six combinations with charcoal (Rec. p. 257), six more with sawdust (Rec. p. 257) and other mixtures containing small percentages of rosin, and small percentages of rosin and oil (Rec. p. 258). Roller admitted that he and Webb made at least nineteen or twenty and they appear to have made thirty or forty different mixtures in the course of their experiments with the Pierson patent (Rec. pp. 258-9). They appear to have made many which were not produced. What these were or why they were not produced, we do not know.

That experts like Roller and Webb should think it necessary to make so many examples said to be in accordance with the Pierson patent even when they started with the knowledge of the Griffiths patent and "Plastic Wood" proves that Pierson's directions are not sufficient to enable a mechanic to produce a material comparable to the Griffiths composition without experimentation.

That the description of a prior patent must be sufficiently clear, complete and explicit to enable a mechanic to reproduce the inven-

tion without experimentation, see the cases on the pages of this brief following the discussion of the prior art.

Summary as to the Pierson Patent.

Therefore as to this patent, we submit:

- (1) That it fails to teach the possibility of a grainless wood.
- (2) That it gives no formula or directions by which such a material can be made.
- (3) That even within the range of proportions given by Pierson in the part of the patent relied upon by the appellant, the material of the Pierson patent can be produced by a person skilled in the art only after a series of experiments.

Accordingly we respectfully submit that the Pierson patent failed altogether to teach the public how to make Griffiths' grainless wood and, therefore, does not anticipate the claims of the patent in suit.

Oblasser British Patent No. 19,242 of 1892 (Exh. Bk. page 79).

The Oblasser patent likewise fails to disclose either Griffiths' fundamental concept of a doughy putty-like mass composed of nitrocellulose, volatile solvent and cellulose filler (wood flour) which on exposure to the air will dry to substantially the solidity and rigidity of wood, but also it fails to give any instructions or description which would inevitably result in the production of such a product. *The patent gives no proportions whatever.* The patent describes, first, a coating like a paint, and then suggests that this coating can be mixed with certain substances to produce "an agglomerate". The deficiencies of the Oblasser patent as an anticipation of the Griffiths invention are best pointed out by plaintiff's expert, Dr. Esselen, as follows:

"Now, the second feature of that Oblasser patent is an agglomerate, which is made by mixing this coating liquid with a filler. The purpose of the agglomerate as described in the patent, is to make battery boxes directly from this by moulding.

Now, if you are going to make an article like a battery box which is open only on one end or one side, it is obvious that

you cannot use a mixture for that purpose which has an appreciable amount of volatile solvent left in it. When it refers to making battery boxes by moulding, it must necessarily refer to the mechanical operation of moulding under pressure, probably also with the aid of heat, because if one were to rely on shaping the box first and then allowing it to set up by the evaporation of the volatile solvent, there would necessarily be warpage during the drying, for the simple reason that the volatile solvent would dry out much more freely from the outside of the box than it would in the inside space, in the inside of the box, and that would necessarily result in warping. Therefore, what is described here must be a very stiff mixture which is moulded by mechanical processes under heat and pressure.

The third feature of the Oblasser patent is simply a cover for battery boxes, which cover is made, essentially, of a piece of transparent celluloid." (Esselen, Rec. p. 310.)

The Oblasser patent, therefore, fails as an anticipation of the claims in the patent in suit. *First*, because Oblasser did not have Griffiths' fundamental conception of a grainless wood, and *second*, because he did not describe ingredients and proportions which would produce such a material.

A Long Time Has Elapsed Since the Pierson and Oblasser Patents Were Granted.

The Pierson patent was granted in 1867, seventy-one years ago and the Oblasser patent was granted in 1892, forty-six years ago. Nevertheless, during the period which elapsed between the dates of these patents and the date of Griffiths' invention the world went without "Plastic Wood". Carpenters continued to use lead putty, to put in wood-inlays and to use roundabout methods of repair which have been largely done away with by Griffiths' invention. If Pierson's and Oblasser's patents had taught the world what defendants' counsel say they do, the world would not have waited fifty years for "Plastic Wood". We respectfully submit that the lapse of time since the Pierson and Oblasser patents were granted is the strongest possible proof that they do not disclose Griffiths' invention.

**REPLY TO DEFENDANTS' THIRD POINT, NAMELY,
THAT THE CLAIMS OF THE GRIFFITHS PATENT
FAIL TO DEFINE ANY INVENTION OVER THE
STATE OF THE ART.**

Defendants' argument on this point is, in effect, that the patent to Pierson, Exh. Bk., page 71, discloses a wide range of proportions from which Griffiths merely made a specific selection within the range and that this did not amount to invention in view of certain other prior art patents. All but two of these patents were fully considered by the Patent Office and by the Supreme Court of the District of Columbia in *Griffiths v. Robertson, Commissioner of Patents, supra*. These prior art patents are:

The Merrick patent No. 1,203,229 (Exh. Bk. p. 73). The Merrick patent describes a filler for shoe bottoms, comprising a mixture of pyroxylin in solution, and "ground cork, and asbestos fiber or other fibrous material". (See p. 1, lines 50-54.) *No proportions of the ingredients are given*. The teaching of the patent is summed up in the claim as follows:

"The improved plastic adhesive composition of matter for use as a filler for shoe bottoms comprising an admixture of pyroxylin in solution, cork in a finely divided state, and subdivided fibrous material."

The purpose of a shoe filler is to fill up the space in a welt shoe between the insole and the outsole, this space being about the thickness of the welt. Since the shoe must bend freely in walking, the filler must have the same flexibility as the leather outsole. If it were stiff, the shoe would be useless. The material must also remain flexible throughout the life of the shoe, and must not shift in the shoe nor be squeezed from one position to another nor form bunches or lumps under the wearer's foot. (See the specification, line 170 and following.) To prevent bunching of the filler, Merrick includes fibrous material as well as ground cork. (See specification, lines 52-54, and the claim.) The fibrous material is necessary to keep "the layer of composition from altering its position under the pressure of the weight of the wearer of the shoe" (lines 69-73).

Merrick, therefore, describes a material which is not in the least wood-like since it is freely flexible like leather and must contain fibrous material so that it will not shift its position in the shoe. This is altogether different from Griffiths' rigid solid grainless wood.

Defendants' witness, Webb, made up a specimen (Defendants' Exh. A-54) which he says is made in accordance with the Merrick patent.

However, he did not follow the teaching of the Merrick patent, because he used ground asbestos which is a powder instead of asbestos fiber which the patent calls for. He used no fibrous material such as "leather, paper pulp and the like". Furthermore, Webb's specimen (Exh. A-54) is as hard and rigid as a piece of wood and is not flexible as called for by the Merrick patent. It is evident that Webb deliberately set out to make the Griffiths composition, not Merrick's; that he chose ingredients and proportions to suit his own purposes, and did not follow the teaching of the Merrick patent. Plaintiff's expert, Esselen, pointed out that the Merrick patent calls for a material which is permanently flexible and soft to the foot, rather than one which is hard, unyielding and rigid. (See Rec. pp. 308-9.)

The Merrick patent was fully considered by the Supreme Court of the District of Columbia in *Griffiths v. Robertson*. Judge Luhring found:

"Paragraph 4. That the patent to Merrick No. 1,203,229, Oct. 31, 1916 (Exh. D), described a filler for shoe bottoms which is when dried a soft pliable, rubbery, flexible, fibrous material and does not on mere exposure to the air harden to substantially the rigidity and solidity of wood." (Exh. Bk. p. 19.)

To sum up as to the Merrick patent, it teaches nothing comparable to Griffiths' plastic composition.

Black No. 1,294,355 (Exh. Bk. p. 91), describes a material for use as a dental filling. It contains such materials as nitrocellulose, silica, gum amber, acetone and chloroform. It contains no vegetable filler such as wood flour. A tooth filling is necessarily a hard bone-like substance entirely different from Griffiths' grainless wood.

The Black patent is too remote to have contributed anything which would have enabled the public to make Griffiths' plastic composition.

As to this patent, Judge Luhring said:

"5. That the patent to Black 1,294,355, February 11, 1919 (Exhibit E) described a dental filling bearing no resemblance to the composition of matter sought to be covered by the claims prayed for in the Bill of Complaint." (Exh. Bk. p. 19.)

Eckstein No. 458,157, August 25, 1891 (Exh. Bk. p. 93). The Eckstein patent discloses a solution of collodion, castor oil, resin, gum and pigment, such as zinc white. The material is intended for collars, cuffs and shirt bosoms. *At best this is merely a white celluloid.* The patent does not describe or suggest the Griffiths composition. This patent was cited by the Examiner in the first Office action (see file wrapper Griffiths patent, Defendants' Exh. A-5, paper No. 2, letter of July 11, 1924), but was never referred to again. The Eckstein patent is dated August 25, 1891. Consequently, for twenty-five years it failed to teach the public how to make the Griffiths composition!

Hyatt & Blake No. 89,582, May 4, 1869 (Exh. Bk. p. 115). This patent describes mixing a solution of gun cotton, alcohol and ether with ivory dust and then molding it under heat and pressure, the pressure being about 10,000 pounds to the square inch. Hyatt & Blake's composition is a hot molding composition intended to produce artificial ivory. This patent does not suggest Griffiths' doughy putty-like mass which turns to grainless wood on mere exposure to the air. Defendants argue that because Hyatt & Blake used an animal powder (ivory dust) and Griffiths in his laboratory notes disclosed the use of leather chips, there is a similarity between the two compositions. The argument is worthless because the Griffiths patent as filed covered only a grainless wood, while the Hyatt & Blake patent teaches only how to make nothing but a hard, dense, hot molding substance like artificial ivory. What Griffiths may have had in his mind when he made his invention is now of no importance. We also call attention to the fact that the Hyatt & Blake patent was granted more than fifty years before Griffiths

made his invention. The patent was not referred to or relied on at the trial of this case. Defendants' present argument is an after-thought.

As to the Hyatt & Blake patent, Judge Luhring in Griffiths-Robertson, said:

"2. That the patent to Hyatt & Blake No. 89582, May 4, 1869, (Exhibit A) described a molding compound which requires heat and heavy pressure to solidify it and is not, before molding, a doughy-plastic mass capable of being handled and used like putty nor of drying by mere exposure to the air to substantially the rigidity and solidity of wood." (Exh. Bk. p. 19.)

*Bulling and Rees, British Patent No. 169,177** (Exh. Bk. p. 130). This patent merely describes the manufacture of a sealing wax based on a solution of celluloid to which calcium chloride, plaster of paris, and coloring matter are added. The patent is too remote to require any discussion. See also Judge Luhring's Finding of Facts as follows:

"7. That the British patent to Bulling and Rees No. 169,177, accepted December 18, 1922 (Exhibit H) is for an improvement in sealing wax substitutes; that it contains mineral fillers and no cellulose filler; that the final compound being hygroscopic, is totally unsuitable for any uses of a wood base putty; that said material is stonelike and has none of the characteristics of wood." (Exh. Bk. p. 20.)

Parks, British Patent 1614 of 1868 (Exh. Bk. p. 139). This patent merely shows that it was old to make articles like billiard balls by moulding them from a mixture of pyroxylin, starch, ground cork, etc. etc.

* This patent was not relied on at the trial. It was not "complete accepted" until Dec. 18, 1922 and not printed until 1923, which dates are less than two years before the date of application, Nov. 17, 1923, of the patent in suit, and therefore cannot be relied on as proof of anticipation.

CITATION OF CASES RELATING TO THE PRIOR ART.

1. Prior Art Patents or Publications to be Effective as Anticipations of a Patent Must Disclose the Invention in Such Full, Clear and Exact Terms as Will Enable a Person Skilled in the Art to Employ It.

The prior art which the defendants have introduced in this case fails to disclose (1) Griffiths' concept of a grainless wood produced from a putty-like material merely by drying, and (2) any exact composition of ingredients which would produce such a result. It is only by inference and argument, by piecing together parts of patents, and particularly by assuming knowledge of Griffiths' fundamental concept, that defendants can approach finding an anticipation in the group of old patents upon which they rely. No patent has been cited which gives Griffiths' concept, nor the ingredients and proportions which would produce Griffiths' plastic composition. No patent describes the invention, much less, describes it in such full, clear and exact terms as would enable a person skilled in the art to practice it without resort to experimentation.

In *Carson v. American Smelting & Refining Co.*, 4 F. (2d) 463-5, this Court said:

"A foreign patent is to be measured as anticipatory, not by what might have been made out of it, but by what is clearly and definitely expressed in it. An American patent is not anticipated by a prior foreign patent, unless the latter exhibits the invention in such full, clear and exact terms as to enable any person skilled in the art to practice it without the necessity of making experiments."

Although the Court was speaking of a foreign patent which it held to be deficient as an anticipation its statement applies with equal force to United States patents.

In *Seymour v. Osborne*, 78 U. S. 516-555, the Supreme Court of the United States (Mr. Justice Clifford) said:

"Patented inventions cannot be superseded by the mere introduction of a foreign publication of the kind, though of

prior date, unless the description and drawings contain and exhibit a substantial representation of the patented improvement, in such full, clear and exact terms as to enable any person skilled in the art or science to which it appertains, to make, construct, and practice the invention to the same practical extent as they would be enabled to do if the information was derived from a prior patent. *Mere vague and general representations will not support such a defence, as the knowledge supposed to be derived from the publication must be sufficient to enable those skilled in the art or science to understand the nature and operation of the invention, and to carry it into practical use.* Whatever may be the particular circumstances under which the publication takes place, the account published, to be of any effect to support such a defence, must be an account of a complete and operative invention capable of being put into practical operation."

See also :

Young Radiator Co. v. Modine Mfg. Co., 55 F. (2d) 545
547 (C. C. A. 7th).

Cohn v. United States Corset Co., 93 U. S. 367-379.

Trussell Mfg. Co. v. Wilson-Jones Co. (C. C. A. 2, 1931),
50 F. (2d) 1027, 1030.

2. A Prior Publication is Not Sufficient As An Anticipation if Experimentation is Required to Make the Invention Available For Use.

This proposition is a corollary of the previous proposition that a prior art patent must disclose the invention in such full, clear and exact terms as will enable a person skilled in the art to employ it. In the cases on this subject the above statement is often coupled with the statement "without the necessity of making experiments". See *Carson v. American Smelting & Refining Co.*, *supra*.

In *J. A. Mohr & Son v. Alliance Securities Co.*, 14 F. (2d) 799, C. C. A. 9, Gilbert, Circuit Judge, said (p. 800) :

"It is to be borne in mind that the prior art here relied upon consists entirely of patents, and that when it is sought by

means of prior patents to ascertain the state of the art, 'nothing can be used except what is disclosed on the face of those patents. *They cannot be reconstructed in the light of the invention in suit, and then used as a part of the prior art*'. *Naylor v. Alsop Process Co.*, 168 F. 911, 94 C. C. A. 315; *Frey v. Marvel Auto Supply Co.*, 236 F. 918, 160, C. C. A. 178."

In *Hoskins Mfg. Co. v. General Electric Co.*, 212 Fed. 422 (D. C. N. D. Ill., Judge Sanborn), the Court said (p. 429) :

"The Prior Art. Legal rules on the question of anticipation are that 'anticipating patents and publications must disclose the invention without patentable change or alteration to make them anticipatory'. *Goodwin Film & Camera Co. v. Eastman Kodak Co.* (Aug. 14, 1913; W. D. N. Y.) 207 Fed. 351, citing *Waterbury Buckle Co. v. Aston*, 183 Fed. 120, 105 C. C. A. 410. As plaintiff's counsel expresses it, the reference—

'must be so clear and definite to enable any mechanic skilled in the art to reach the patented invention certainly, directly, *and without the necessity of any experiment*, and this rule is enforced with peculiar strictness when the alleged disclosure is found in a foreign patent or publication'.

Badische Anilin & Soda Fabrik v. Kalle, 104 Fed. 802, 44 C. S. A. 201; *Hogan v. Specialty Co.*, (C. C.) 163 Fed. 289; *Hopkins on Patents*, 261; *Macomber's Fixed Law of Patents* (2d. Ed.) Sec. 85."

This case was affirmed by the Circuit Court of Appeals for the Seventh Circuit in 224 Fed. 464. In their decision the Circuit Court of Appeals made the following statement which is directly applicable to the case at bar (p. 471) :

"It was an inventive act on Marsh's part to extricate this most valuable material from the vague generalities and speculative statements of Placet, and place it among the instrumentalities of science as an electrical resistance element."

Earlier in the opinion the Court also said (p. 470) :

"For 11 years this device of Marsh lay hidden as a gem in its

Placet matrix. There it might yet be lying had not Marsh found it and made it public. Certainly it never occurred to Placet that this chromium-nickel alloy would produce a rival to platinum as a resistance element at a cost and under conditions which made it an available article of commerce."

Goodwin Film & Camera Co. v. Eastman Kodak Co., 207 Fed. 351, is also interesting because in that case the Court hesitated to consider tests, such as those made by Webb and Roller in the present case, on the ground that the anticipating patent must speak for itself and that such tests and experiments went outside the disclosure of the anticipating patent. The Court said (p. 360) :

"The rule is that anticipating patents and publications must disclose the invention without patentable change or alteration to make them anticipatory. *Waterbury Buckle Co. v. Aston*, 183 Fed. 120, 105 C. C. A. 410. If the anticipatory matter relied upon was capable of producing a satisfactory support for the film, the evidence relating thereto is not sufficiently persuasive of the fact. In the light of the invention in suit and subsequent developments in the film-making art, *it is not improbable that the earlier processes might now be quite easily altered to attain the Goodwin result, and because of such probability this court is reluctant to give weight to the test films made by Prof. Main* since this action was brought in support of the assertion that the prior art described a process for successfully making films of the Goodwin type."

3. The Fact that a Long Time Has Elapsed Since the Prior Art Patent is Often Conclusive Evidence that the Prior Art Patent Did Not Disclose the Invention.

As has already been pointed out, defendants in this case rely for anticipation chiefly on patents which were taken out from twenty to fifty years before Griffiths made his invention. This fact establishes that these patents did not disclose the invention and, therefore, that the public had no prior knowledge of Griffiths' composition.

In *Kings County Raisin & Fruit Co. v. United States Consolidated Seeded Raisin Co.*, 182 F. 59-62, Oct. 3, 1910, this Court (Judge Gilbert) referring to a prior art patent said:

“A third of a century passed between the date of that patent and the date of the Pettit patent, and in that time the evidence is conclusive that raisin seeding was done by hand, and that seeding by machinery was an unknown art.”

In *Young Radiator Company v. Modine Mfg. Co.*, 55 F. (2d) 545, C. C. A. 7, Dec. 28, 1931, the Circuit Court of Appeals for the Seventh Circuit said:

“Whatever may be said of the simplicity of appellee’s device and the readiness with which a mechanic might anticipate such use of the old elements involved, the fact remains that for more than half a century no mechanic, so far as the record shows, had ever suggested such use. We are convinced therefore that the patent is valid.”

In *Wellman-Seaver-Morgan Co. v. William Cramp & Sons Ship & Engine Bldg. Co.*, 3 F. (2d) 531, 532, January 15, 1925, the Circuit Court of Appeals for the Sixth Circuit (Judges Denison, Mack and Donahue) said:

“If earlier patents show a close analogy with differences which, according to our present light, hardly seem material, and yet it appears that such a patent, or a succession of them, never found any commercial favor, this fact has evidential force to indicate that the differences are more important than they seem, and that the relatively slight later changes and adaptation to a different demand have a valid claim to inventive character.”

In *American Stainless Steel Co. v. Ludlam Steel Co.*, 290 Fed. 103 at 105-6, April 16, 1923, the Circuit Court of Appeals for the Second Circuit, Judge Hough, made the following statement, which is strikingly apposite to the case at bar:

“This record is replete with accounts of speculations on this subject and dissertations thereon by men confessedly skillful

in their day in the arts of steel making and metallurgy. These publications have been advanced by defendant to minimize the inventive concept of Haynes and Brearley. To us they magnify it. There are many inventions which seem to have been gathered, as it were, from the scrap heaps of human effort. They appear to observers as the results of accident, rather than intelligent design. But where men, doubtless well equipped for a particular sort of work, have hoped and investigated and even prophesied as to what could be done, but never did it, and other men similarly equipped have by intensive study and skillful experiment succeeded, such success commands and should receive a greater meed of intellectual appreciation than is accorded even to the cleverness of picking up and utilizing an unconsidered or discarded trifle. When to the scientific triumph of succeeding where other scientists have failed is added the development of a new branch of industry, the word 'pioneer' may well be accorded to the patent which describes and defines, even though lamely, the essentials of such success."

See, also, *Carson v. American Smelting & Refining Co.*, 4 F. (2d) 463, 465, and the discussion of the prior Siemens patent.

In the case at bar defendants' counsel have cited a number of publications and patents "to minimize the inventive concept" of Griffiths. "*To us they magnify it.*" They bring into sharp relief the fact that none of these prior writers and patentees, brilliant though they were, and valuable as are the contributions which some of them have made, had the remotest conception of a grainless artificial wood.

Nothing which they did would ever have given to the carpenter his new tool.

4. The Defendants Rely on Ex Post Facto Wisdom to Build up an Anticipation.

From the several prior art patents referred to in detail above, defendants in their brief (p. 32) argue that it was customary to mix a finely divided filler into a solution of nitrocellulose and that "the nature of the resulting product desired determines what filler to

use". This argument is based on the fallacy which permeates defendants' brief throughout, viz.,—that any one who wanted to make the Griffiths composition could have found out how to do so by examining the patents cited, thus assuming a knowledge of Griffiths' concept which did not exist prior to the date of Griffiths' invention. Defendants' witness Roller fell into the same mistake when he said: ". . . assuming that I knew what Plastic Wood is, . . . I would proceed to make up my mixture as he directs in there." (Rec. p. 284.) The defendants therefore rely on *ex post facto* wisdom to build up an anticipation. This is the very error which the Supreme Court of the United States has frequently condemned. In *Diamond Rubber Co. v. Consolidated Rubber Tire Co.*, 220 U. S. 428, the Supreme Court of the United States (Mr. Justice McKenna) said (pp. 434-5):

"Knowledge after the event is always easy and problems once solved present no difficulties, indeed, may be represented as never having had any, and expert witnesses brought forward to show that the new thing which seemed to have eluded the search of the world was always ready at hand and easy to be seen by a merely skillful attention. But the law has other tests of the invention than subtle conjectures of what might have been seen and yet was not."

In *General Electric Co. v. P. R. Mallory Company*, 294 F. 562, 564, Judge Mayer of the Second Circuit said:

"The defenses in the case at bar might be called synthetic defenses. Once an invention is disclosed to the world, skilled men can show how, if somebody previously had done this or that, the inventive result would have happened, and the device of the patent could have been built up. But the answer usually is that the prior art shows that the skilled men did not conquer the 'ifs'."

In *Proctor & Gamble Co. v. Berlin Mills Co.*, 256 F. 23 at 26, C. C. A. 2, Hough, C. J., said:

"When novelty in that sense appears the question really is one of measuring foresight by hindsight. The problem

seems easy now, but when the object reached was desirable, useful, and apt for commercial success, the bald fact that nobody ever did it before is persuasive, though not conclusive, evidence of some invention. Burchenal's imitation lard has these attributes, and we consider it a sufficient answer, to the statement that any oil chemist could have done the thing, to note that no oil chemist did do it during the more than score of years prior to Burchenal's application when cotton seed oil (especially) as an abundant American product was endeavoring to supplant lard in the American market."

See also:

General Electric Co. v. Alexander, 277 Fed. 290, 300 (So. Dist. of N. Y.).

Root Refining Co. v. Universal Oil Products Co., 78 F. (2d) 991, 995 (C. C. A. 3).

Gulf Smokeless Coal Co. v. Sutton, Steele & Steele, 35 F. (2d) 433, 436 (C. C. A. 4).

Expanded Metal Co. v. Bradford, 214 U. S. 366, 381 (C. C. A. 3).

Gottschalk Mfg. Co. v. Springfield Wire & Tinsel Co., 74 F. (2d) 583, 586 (C. C. A. 1).

Westinghouse Elec. & Mfg. Co. v. Wadsworth Elec. & Mfg. Co., 36 Fed. (2d) 319, 321 (C. C. A. 6).

**REPLY TO DEFENDANTS' ARGUMENT THAT
CLAIMS 5, 8, 13, 16 AND 17 ARE TOO BROAD,
VAGUE, FUNCTIONAL AND INDEFINITE TO
BE VALID.**

Defendant argues (Brief, pp. 7-13) that claims 5, 8, 13, 16 and 17 are too broad, vague, functional and indefinite to be valid and bases this argument on the assertion that the patent contains no definition of "doughy or putty-like" and does not state the proportions of the composition requisite to enable it to "harden upon mere exposure to air to substantially the rigidity and solidity of wood".

The statutory provision requiring that the claims of a patent

must be definite has for its sole purpose to inform the public of the limits of the monopoly granted by the patent. If the claims of a patent inform the public of these limits, the reason for the rule is fully satisfied and the claims are not subject to criticism on this ground. In the case at bar, the claims mark out the boundaries of the patentee's monopoly with all the definiteness which even the most meticulous can require.

The Griffiths patent in suit contains five formulae, one of which gives the general limits which are recommended, another of which gives the preferred form which is practically identical with the material now put on the market by the plaintiff under the name "Plastic Wood", while the other three formulae are alternative compositions. The patentee describes exactly each material which enters into his composition. The claims in question specify the three essential materials (nitrocellulose, volatile solvent and finely divided cellulose filler), the condition of the mixture before using, and the condition after hardening, and, further, that the hardening results from mere exposure to air. A person who reads the specification and then reads the claims knows exactly what the patent covers. Not only can he make the Griffiths composition without further information but he can tell whether a given composition which he has made is within the terms of these claims.

Furthermore the phrases "doughy, putty-like" and "having the rigidity and solidity of wood" are not, as defendants assume, functional phrases. They describe definite physical characteristics of the composition both before and after hardening. They are as definite as if the patent had said that the mixture must have a certain viscosity before and a certain specific gravity after hardening. Had phrases like "viscosity" or "specific gravity" been used, the claims would not have been criticized as functional or indefinite. Homely terms understood by everyone may define an invention just as accurately as scientific terms.

The Decision in *General Electric Company v. Wabash Appliance Company*, 37 USPQ 466. 304 U. S. 364; 82 L. Ed. 912.

Defendants rely upon the recent decision of the Supreme Court to support their position that the claims of the Griffiths patent are indefinite and functional. Even though, as already pointed out, it is apparent that the claims of the patent in suit are definite and are not functional, a word as to the limits of the decision of the Supreme Court in *General Electric v. Wabash* may be desirable.

In the General Electric case the patented tungsten filament was described only as composed of "large grains of such size and contour as to prevent substantial sagging and offsetting". Previous filaments had also been composed of large regular grains. Neither the specification nor the claims contained any description of any variation in structure or quality of the large grains which prevented sagging or offsetting. The public, therefore, was left wholly in the dark as to how to make a filament composed of large grains which would not sag or offset, and, therefore, as to the precise limits of the claims. Pacz attempted to claim any and all large grain structures which prevented two known defects, without claiming or even disclosing any way in which the result could be accomplished.

In the General Electric case, the functional statement that the large grains would not offset or sag was the only thing which distinguished Pacz's improvement from the prior art.

But even under these conditions the Supreme Court said:

"A limited use of terms of effect or result, which accurately define the essential qualities of a product to one skilled in the art, may in some instances be permissible and even desirable, but a characteristic essential to novelty may not be distinguished from the old art solely by its tendency to remedy the problems in the art met by the patent. And we may doubt whether the language used in Claim 25, taken by itself, conveyed definite meaning to those skilled in the art of incandescent lighting." (Page 469.)

In the present case

(1) As already pointed out, the term "doughy and putty-like" and the phrase "to harden upon mere exposure to the air to substantially the solidity and rigidity of wood" are as simple and understandable as can well be conceived. Any person, whether skilled in the art or not, will understand instantly what is meant by these terms. Technical terms or verbose explanations could not describe the condition of the plastic before and after hardening more accurately.

(2) Griffiths specification sets forth the specific proportions of the ingredients required in exact formulae. This was not true of Pacz. Thus Mr. Justice Reed said:

"Assuming that in a proper case a claim may be upheld by reference to the descriptive part of the specification in order to give definite content to elements stated in the claim in broad or functional terms, *the specification of the Pacz patent does not attempt in any way to describe the filament, except by mention of its coarse-grained quality.* Even assuming that definiteness may be imparted to the product claim by that part of the specification which purportedly details only a method of making the product, *the description of the Pacz process is likewise silent as to the nature of the filament product.*"

(3) The statement of proportion is not the "characteristic essential to novelty", but incidental to that characteristic. Here Griffiths specifies the actual ingredients, nitrocellulose, solvent and wood filler and that the mixture of these ingredients shall have the properties of being doughy or putty-like before exposure to air, and of hardening into a grainless wood after exposure to air. This whole combination of ingredients and characteristics was novel. Therefore, the rule of the General Electric case, that where an improvement over the prior art differs from the prior art only by the inclusion of one novel element the claims must define that element in terms of its structure, rather than its purpose, does not apply.

(4) The Griffiths invention is not a narrow improvement over the prior art; the claims do not define the "novel characteristic" by its "tendency to remedy the problems in the art".

(5) A patent is addressed to the man skilled in the art. The man skilled in the art can tell from the Griffiths' claims what proportions of nitrocellulose, solvent and filler are needed to give the doughy, putty-like characteristics to the composition, and which will harden into the solidity of wood upon mere exposure to the air.

It must be obvious also that the requirement for defining an invention does not require a statement of exact percentages as defendants argue. Once an inventor of a new composition has shown in his disclosure how his new composition can be made, it will at once become clear to others familiar with the art that many different proportions can be used, with varying and useful results in the final product. The patentee is entitled to claims which, while defining the invention accurately, will protect it adequately. The rule for which defendants argue would limit the patentee to something less than his invention and permit imitators to profit by the patentee's discovery, and shield himself behind a purposeless rule of interpretation.

It is respectfully urged that the rule of *General Electric Co. v. Wabash Corp.* does not apply and that the limitation in claims 5, 8, 13, 16 and 17 state the patentee's invention in terms easily understood and mark out the boundaries of plaintiff's monopoly unmistakably.

We respectfully submit that the situation in the case at bar is more like that in the *Eibel Process case* and *Tilghman v. Proctor* than in *General Electric v. Wabash Corp.* It is obvious that the Supreme Court did not intend to overrule either the *Eibel case* or *Tilghman v. Proctor* both of which present entirely different states of fact.

In *Eibel Process Company v. Minnesota & Ontario Paper Co.*, 261 U. S. 45, claim 1 sustained read as follows (p. 50) :

"1. A Fourdrinier machine having the breast-roll end of the paper-making wire maintained *at a substantial elevation above the level*, whereby the stock is caused to travel by gravity, *rapidly*, in the direction of movement of the wire, and *at a speed approximately equal to the speed of the wire*, substantially as described."

Mr. Chief Justice Taft said (pp. 65-66) :

“The next objection of the patent which prevailed in the Circuit Court of Appeals is that its terms are too vague because the extent of the factor of pitch is not defined except by the terms ‘substantial’ and ‘high’. The figure accompanying the specification and illustrating the improvement indicates an angle of four per cent. or an elevation of 12 inches, and the reference to the small elevations for drainage shown in earlier devices indicates that the patentee had in mind elevations substantial as compared with them in order to achieve his purpose of substantially increasing the speed of the stock. *It was difficult for him to be more definite, due to the varying conditions of speed and stock existing in the operations of Fourdrinier machines and the necessary variation in the pitch to be used to accomplish the purpose of his invention.* Indefiniteness is objectionable because the patent does not disclose to the public how the discovery, if there is one, can be made useful and how its infringement may be avoided. We do not think any such consequences are involved here. This patent and its specifications were manifested to readers who were skilled in the art of paper making and versed in the use of the Fourdrinier machine. The evidence discloses that one, so skilled, had no difficulty, when his attention was called to their importance, in fixing the place of the disturbance and ripples to be removed, or in determining what was the substantial pitch needed to equalize the speeds of the stock and wire at that place. The immediate and successful use of the pitch for this purpose by the owners of the then fastest machines and by the whole trade is convincing proof that one versed in paper making could find in Eibel’s specifications all he needed to know, to avail himself of the invention. Expressions quite as indefinite as ‘high’ and ‘substantial’ in describing an invention or discovery in patent specifications and claims have been recognized by this Court as sufficient. In *Tilghman v. Proctor*, 102 U. S. 707, the claim sustained was for “the manufacturing of fat acids and glycerine from fatty bodies by the action of water at a *high temperature* and pressure’. See also *Rubber*

Co. v. Goodyear, 9 Wall. 788, 794; *Mowry v. Whitney*, 14 Wall. 620, 629; *Lawther v. Hamilton*, 124 U. S. 1, 9; *Carnegie Steel Co. v. Cambria Iron Co.*, 185 U. S. 403, 436; *Abercrombie & Fitch Co. v. Baldwin*, 245 U. S. 198, 205.”

**REPLY TO DEFENDANTS' ARGUMENT THAT
THERE IS NO INFRINGEMENT OF THE
GRIFFITHS CLAIMS.**

Defendants' argument found on pages 36-7 of its brief is in substance that as the defendants' composition contains only 11.5% of wood filler, whereas the Griffiths composition as described in the specification contains from 15 to 30%, and since, so defendants say, the Pierson patent anticipates the claims if read broadly, the claims must be limited to not less than 15% of wood filler.

The argument is unsound for the following reasons:

1. Because defendants conceal the fact that in addition to the 11.5% of wood flour its product contains 6.26% gypsum on the basis of volume, bringing the total filler to 17.8%. Gypsum is an equivalent for the wood flour. In fact, therefore, defendants are using 17.8% of filler and not 11.5% and this amount is more than the amount (15%) to which defendants would limit the claims by interpretation.

2. Because there is nothing in the Pierson patent which requires any such limitation of the claims of the patent in suit. As already pointed out Pierson specified the range as from 10 to 64% of filler but he did not tell the public what percent of filler must be used to produce a doughy putty-like material which on hardening will become a grainless wood. Griffiths' invention consisted in the discovery that he could produce a grainless wood by using proportions of materials which happened to be within Pierson's range. The dividing line between Pierson's composition and Griffiths' composition is definitely set by the two phrases "doughy, putty-like" and "in such proportions as to harden upon mere exposure to air to substantially the rigidity and solidity of wood".

3. Because the claims are limited as suggested, they will be substantially the same as other claims already in the patent. It is well established that the Court will not limit broad claims of a patent so that they will coincide in scope with narrower claims.

CONCLUSION.

In conclusion we respectfully submit:

That Griffiths made a most meritorious invention which has given to the public a new and extremely useful tool.

That the invention was novel and almost pioneer in character.

That the defendants have availed themselves of the knowledge which Griffiths gave to the world.

That such prior art patents as Pierson's which are silent on the possibility of making an artificial grainless wood do not anticipate Griffiths' invention, and

That the patent is full and explicit and the claims define the invention clearly and accurately.

We further submit that defendants' arguments are based on knowledge after the event—the *ex post facto* wisdom which the courts often condemned, and that the decree of the District Court should be affirmed.

Respectfully submitted,

GEORGE P. DIKE,
CEDRIC W. PORTER,
DIKE, CALVER & GRAY,
for the Appellee.

G. WRIGHT ARNOLD,
Seattle, Washington,
Solicitor for Appellee.

Boston, Mass., October 31, 1938.

APPENDIX.

DISTRICT COURT OF THE UNITED STATES DISTRICT OF MASSACHUSETTS

EQUITY No. 4091

THE A. S. BOYLE COMPANY

v.

HARRIS-THOMAS COMPANY ET AL

OPINION.

February 8, 1937.

MCLELLAN, J. This is a suit for infringement of the patent under which the plaintiff's preparation known as plastic wood is made and sold in the United States,—Patent No. 1,838,618, issued to Manfred Ethelwold Griffiths on December 29, 1931, upon an application filed November 17, 1923. Proceedings in the Patent Office and in the Supreme Court of the District of Columbia occupied the years between the date of the application and the date of the issue.

Statements of fact and conclusions appearing herein may be taken as findings of fact and conclusions of law in accordance with the equity rules.

The defendants are Harris-Thomas Company and Low Supply Company. The plaintiff's brief makes no reference to the Low Supply Company, no evidence was introduced against it, and no claim was asserted at the trial against it, and as to this defendant the bill should be dismissed. Hereafter in this opinion when the defendant is referred to it will be understood that the Harris-Thomas Company alone is meant.

The defences are invalidity and non-infringement. The defendant offered no testimony on either issue, but in support of its allegations as to invalidity presented, as evidence of the prior art, a great number of patents and some excerpts from textbooks and other publications.

The nature of the invention is thus stated in the specification:

“This invention relates to plastic compositions and has for its object to provide a plastic mass which may be used for many

purposes, for example, for filling, coating or moulding, having properties not found in the usual filling and like compositions.

"The invention in brief consists in a plastic composition comprising a solution of nitro-cellulose, a resinous body and a non-drying oil in a ketonic liquor, to which solution a filler is added * * *

"The mixture is treated in a kneading machine until it is of uniform consistency. It may then be employed for a number of purposes; for example, it may be used by pattern makers for filleting and similar work, by joiners and cabinet makers for filling screw and nail holes, shakes in timber, openings at joints and for preparing or repairing mouldings and carvings, or by shoemakers for building up or repairing lasts.

"A plastic composition prepared as described above hardens quickly when exposed to the air, adheres firmly to any clean dry foundation, does not blister or powder when exposed to moderate heat and is not affected by water, gasoline or other available liquids."

Ingredients suggested in the specification are celluloid scrap, castor oil, and ester gum, dissolved in industrial spirit, benzol and acetone. To this solution wood flour is added. Various formulae are given for the combination of these ingredients, and the limits within which the proportions may be varied are stated.

The claims in issue follow:

5. A doughy, putty-like plastic composition comprising nitro-cellulose in a solution containing a volatile liquid, and a finely divided cellulose filler in such proportions as to harden upon mere exposure to air to substantially the rigidity and solidity of wood.

6. A doughy putty-like plastic composition comprising nitro-cellulose in a solution containing a volatile liquid and a finely divided cellulose filler in such proportions as to harden upon mere exposure to air to substantially the rigidity and solidity of wood, said filler being present in not less than fifteen parts by weight.

8. A doughy putty-like plastic composition, comprising

nitrocellulose in a solution containing a volatile liquid, a non-drying oil and a finely divided wood filler in such proportions as to harden upon mere exposure to air to substantially the rigidity and solidity of wood.

11. A doughy putty-like plastic composition, comprising nitrocellulose in a solution volatile in part at least and containing a ketonic liquor, a non-drying oil, and a finely divided cellulose filler in such proportions as to harden upon mere exposure to air to substantially the rigidity and solidity of wood, said filler being present in not less than fifteen parts by weight.

13. A doughy putty-like plastic composition comprising nitrocellulose in a solution volatile in part at least and containing acetone, castor oil, a resinous body, and a finely divided cellulose filler in such proportions as to harden upon mere exposure to air to substantially the rigidity and solidity of wood.

15. A doughy, putty-like plastic composition comprising nitrocellulose in a solution containing a volatile liquid, a non-drying oil, and a resinous body, and a finely divided wood filler in such proportions as to harden upon mere exposure to air to substantially the rigidity and solidity of wood, said wood filler being present in not less than fifteen parts by weight.

16. A doughy, putty-like plastic composition comprising nitrocellulose in a solution containing a volatile liquid, a non-drying oil, and a resinous body, and a finely divided wood filler in such proportions as to harden upon mere exposure to air to substantially the rigidity and solidity of wood.

17. A composition of matter for hole filling and filleting, which before exposure to the air is dough-like and putty-like, and contains finely divided wood, nitrocellulose and a volatile liquid, and after exposure to the air has a wood-like rigidity and solidity and is essentially finely divided wood held together by the nitrocellulose.

18. A composition of matter for hole filling and filleting, which before exposure to the air is dough-like and putty-like and contains a volatile liquid, nitrocellulose, and about 15 to about 30 percent by weight of finely divided wood, and which after exposure to the air has a wood-like solidity and rigidity

and is essentially the finely divided wood held together by the nitrocellulose.

In the combination described in these claims the nitrocellulose is the ingredient upon which all else depends. Without it there would be no plasticity and no hardening into the solidity of wood. Nitrocellulose, with which everyone is familiar when it appears in the form of celluloid, is the result of treating cotton or other vegetable fibre in nitric acid or in a mixture of nitric acid and sulphuric acid. It may be reduced to a plastic mass by the use of a suitable solvent, and in this state it may be moulded into any desired form and hardens permanently into that form upon evaporation of the solvent. If applied in its plastic form it will adhere firmly to almost any clean surface. These are the properties of nitrocellulose that the patentee employs. By mixing wood flour with plastic nitrocellulose he obtains a putty-like material which remains plastic until exposed to the air. Packed in air-tight cans or tubes it is available for use by the consumer very much as ordinary putty is used. It adheres to any wooden surface and solidifies quickly to the hardness of wood. Like wood, it may be sawed, whittled, planed, bored, painted, varnished, or treated in any way that wood might be treated.

Griffiths' composition has many uses. It was first produced in England to meet a demand from shoe manufacturers for a material with which shoemakers could restore the surface of shoe lasts when they become pitted with nail holes after repeated use. It is now in common use, not only by shoemakers, but by carpenters, painters, and boat repairers, and it is also much used for small repairs in the home.

The invention has been a commercial success. The plaintiff's president testified that the annual sales are about two and a half million units a year, a unit being either a can or a tube. It has had the flattery of imitation. During the years after it was put on the market and while the patent was pending, imitators flocked in with preparations under such names as Arco Synthetic Wood, Handy Wood, Dandee Wood Patch, Flex Wood, Patch Wood, Patching Wood, Limber Wood, Dum Dum Workable Wood, Wood Paste,

Wood Plaster, Tilette Canned Wood, Tremo Plastic Wood, Fixit Mending Wood, Magic Wood,—all names suggesting the character of the appeal which the product makes to the public as a handy preparation for small repairs. The defendant's product is marketed as Wood Dough.

The defendant has put in evidence eighty-five patents and several excerpts from textbooks and publications. Perhaps it is not true that many of the patents are merely paper patents, but in other respects what was said by the Circuit Court of Appeals in *Naylor v. Alsop Process Company*, 168 Fed. 911, 917, might be repeated here. In that case the Court said:

“Defendants have ransacked patent offices in America and Europe, and brought together a formidable collection of patents. Many of them are paper patents, and others relate to remote arts. Piecing together excerpts and elements from this wide search, they have built up a formidable speculative argument to show how simple and easy was the step taken by Andrews. This is a form of argumentation familiar in patent litigation. Though it seldom succeeds, it is often the only recourse of the infringer. The patent law, however, has its proper place in the realm of actual industrial life, and not in the limboes of parchment casuistry. The merit of a patent is to be determined, not by its standing in dialectics, but by its actual effects in the art to which it belongs. Judged by that test, the Andrews invention was revolutionary. Within five years after its discovery it had been generally applied in the milling business, both in this country and abroad. It accomplished a new and desired industrial result simply, cheaply and efficiently. In the presence of such an experience, speculative arguments based on the prior art can seldom prevail.”

It is unnecessary to single out any one of these eighty-five patents for particular comment. It is enough to say that they show that inventors, at least since 1855, have been experimenting with the properties of nitrocellulose. Aside from the manufacture of celluloid, which is one of its most conspicuous uses, it has been employed, and patents have been taken out for its use, as a coating for

fabrics and as a lacquer. It has been mixed with various types of filler,—animal, vegetable and mineral,—and the mixtures have been moulded into a great variety of useful articles. Castor oil and resins have been a part of the mixtures. In one or two instances at least, inventors have mixed nitrocellulose with sawdust to make artificial wood.

The significant thing that emerges from an examination of the prior art and the evidence of widespread knowledge of the properties of nitrocellulose which it affords, is that nobody thought of making it available in the workshop and in the home in the form of a convenient putty for repairs to articles made of wood. The deposition of Carlton Ellis is interesting as an illustration of this. Ellis, who testified that he had been engaged for many years in research in the field of resins and plastics and had taken out perhaps a thousand patents relating to subjects in that field, including nitrocellulose compositions, said that it had been many times a matter of regret to him that Griffiths' idea of a putty-like material which would harden to resemble wood had never occurred to him. The same thing is brought out in another way by the testimony of the former manager of the plaintiff's factory, who told how difficult it was at first to introduce their product to dealers because of their skeptical attitude towards a thing so unheard of.

Lapse of time, during which all the principles upon which an invention depends have been widely known, and its beneficial result when at last it comes, have often been held decisive of the question of invention. Thus the Supreme Court in *Loom Company v. Higgins*, 105 U. S. 580, 591, says:

“It is further argued, however, that, supposing the devices to be sufficiently described, they do not show any invention; and that the combination set forth in the fifth claim is a mere aggregation of old devices, already well known; and therefore it is not patentable. This argument would be sound if the combination claimed by Webster was an obvious one for attaining the advantages proposed,—one which would occur to any mechanic skilled in the art. But it is plain from the evidence, and from the very fact that it was not sooner adopted and used, that it did not, for years, occur in this light to even the

most skillful persons. It may have been under their very eyes, they may almost be said to have stumbled over it; but they certainly failed to see it, to estimate its value, and to bring it into notice. Who was the first to see it, to understand its value, to give it shape and form, to bring it into notice and urge its adoption, is a question to which we shall shortly give our attention. At this point we are constrained to say that we cannot yield our assent to the argument, that the combination of the different parts or elements for attaining the object in view was so obvious as to merit no title to invention. Now that it has succeeded, it may seem very plain to anyone that he could have done it as well. This is often the case with inventions of the greatest merit. It may be laid down as a general rule, though perhaps not an invariable one, that if a new combination and arrangement of known elements produce a new and beneficial result, never attained before it, it is evidence of invention."

Two recent cases illustrate the application of this principle in arts analogous to that of the patent in suit.

In *Yablick v. Protecto Safety Appliance Corporation*, 21 Fed. (2d) 885, the court had before it a patent for a gas mask. It was shown that the property of the chemical upon which the success of the mask depended, the fact that it would absorb the noxious gas against which the mask was designed to give protection, had been pointed out in a work on chemistry. But the court said: "This fact was not translated into commercial utility until the genius of the patentee did it."

In *Denner v. Sheer Pharmacal Corporation*, 64 F. (2d) 217, the patent was for a depilatory. The patentee had taken well known depilating agents and combined them with colloid-like substances, also well-known, to produce a depilatory which could be applied in the form of a cream. The cream form was much more satisfactory to the public than anything that had been on the market previously, and on this ground the patent was sustained.

Black & Decker Manufacturing Company v. Biltmore Trust Tire Service Corporation, 40 Fed. (2d) 910, is an illustration in a different art.

Besides its reliance upon the prior art, the defendant urges that there was no invention in what Griffiths did, because, as the testimony shows, his combination was developed in response to an inquiry for a suitable filler for shoe lasts, and the discovery was made in the ordinary course of laboratory experiment. There is nothing in this to make it any the less an invention. The patent laws do not insist upon anything dramatic in the discoveries which they protect. An invention may be patentable, although it is "the result of experiment, and not the instant and perfect product of inventive power. A patentee may be baldly empirical, seeing nothing beyond his experiments and the result; yet if he has added a new and valuable article to the world's utilities, he is entitled to the rank and protection of an inventor." *Diamond Rubber Company v. Consolidated Rubber Tire Company*, 220 U. S. 428, 435.

Another contention upon the issue of invalidity is that the claims of the patent are broader than the specification. The basis of this is the use in the claims of the words "doughy, putty-like" to describe the plastic composition covered by the claims, and the phrase "to harden upon mere exposure to air to substantially the rigidity and solidity of wood". It is true that the specification does not describe the product as doughy and putty-like, but this is only another way of describing it, as the specification does, as plastic. It is also true that the specification does not point out that the mixture hardens to the rigidity and solidity of wood, but it does say that it is to be used for filling and for molding, and that it hardens quickly when exposed to the air. The patentee is not bound to use in his claims the precise phraseology with which he sets forth the invention in his specification. Indeed, claims may be changed, as a result of proceedings in the patent office, to express more adequately the true nature of the invention. *Cleveland Foundry Company v. Detroit Vapor Stove Company*, 131 Fed. 853.

The defendant also argues from the evidence of public use of the Griffiths product in England, without any application for a patent there, that Griffiths should be held to have abandoned his invention. But this is plainly insufficient to show abandonment of the right to patent the invention in the United States. See *Gandy v. Main Belting Company*, 143 U. S. 587. Abandonment is a matter

of intent to be clearly proved, and an application for a patent is in itself persuasive proof that the applicant has no intention to dedicate his invention to the public. *Ide v. Trorlicht, Dumcker & Renard Carpet Company*, 115 Fed. 137, 144.

Defendant's counsel do not argue in their brief that the defendant's product does not infringe the patent. The only testimony upon the point is the analysis of that product by the plaintiff's chemist, which shows that the ingredients are the same as those of the patent, except for the substitution of toluol for benzol as a solvent, and that they are combined in substantially the same proportions as those of the plaintiff's commercial product, which also makes the same substitution of toluol for benzol.

I conclude that the claims in suit are valid and infringed.

Let there be a decree against the defendant Harris-Thomas Company for an injunction and an accounting, with costs.

As to the defendant Low Supply Company, the bill is dismissed, and it should recover its costs.

United States
Circuit Court of Appeals

For the Ninth Circuit

THE PACIFIC MARINE SUPPLY COM-
PANY and WEBB PRODUCTS CO.,
INC.,

Appellants,

vs.

THE A. S. BOYLE COMPANY,

Appellee.

REBUTTAL BRIEF FOR APPELLANTS

FRED H. MILLER,

706 Central Building,
Los Angeles, California,

G. E. STEINER,

304 South Spring St.,
Seattle, Washington,

Attorneys for Appellants.

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United States
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THE PACIFIC MARINE SUPPLY COM-
PANY and WEBB PRODUCTS CO.,
INC.,

Appellants,

vs.

THE A. S. BOYLE COMPANY,

Appellee.

Appeal
No. 8876

REBUTTAL BRIEF FOR APPELLANTS

The appellee has devoted a large portion of its brief to a discussion of facts tending to indicate validity of the patent in suit, discussing primarily the fact that the appellee has made a considerable commercial success (appellee's brief, pp. 16-18), the fact that when appellee's product, Plastic Wood, was first placed on the market, certain witnesses did not know of any product which was sold for the same purpose to the trade (appellee's brief, pp. 18 and 19), that a large number of the uses for Plastic Wood have been developed (appellee's brief, pp. 19-21), and that a long period of time elapsed between the Pierson and Oblasser patents and the Griffiths patent (appellee's brief, p. 32.)

All of these considerations must fall to the ground when, as appears in this case, the Griffiths composition is completely anticipated by the prior art. Commercial success is not a substitute for invention or patentable novelty. *Premier Machine Company, Inc. v. Freeman*, 84 F. (2d) 425, C. C. A. 1:

“Commercial success if shown to be attributable only to the thing patented may be very significant when the question of invention is close, and especially when there is evidence of previous attempts to solve the problem which were unsuccessful; *but it is by no means the equivalent of invention*. And when invention is clearly absent it is the duty of the courts to say so no matter what degree of commercial success may have been attained. In *Paramount-Publix Corp. v. Am. Tri-Ergon Corp.*, 294 U. S. 464, and *Altoona Publix Theatres v. Am. Tri-Ergon Corp.*, 294 U. S. 477, enormous commercial success was held not to be the equivalent of invention.”

Nor does the fact that certain witnesses were unfamiliar with all of the prior art deny the existence of prior art or militate against anticipation. Likewise, the fact that a large number of uses have been developed for Plastic Wood which are not set forth in the Griffiths patent does not establish patentable novelty or invention, nor does it even prove that the compositions of the prior art are not susceptible of the same uses.

The appellee also points to various litigations involving the Griffiths patent. In *Griffiths v. Robertson, Commissioner of Patents* referred to at pages 22 and 23 of appellee's brief the Court did not even have the Pierson and Oblasser patents before it. (R. 190 and 191.)

At the top of page 24 of appellee's brief, the appellee refers to three suits settled out of court by consent. Such consent decrees do not establish invention or patentable

novelty, but instead merely a desire on the part of the defendants therein to avoid litigation.

In *Boyle v. Harris-Thomas Co.*, referred to at the bottom of page 24 of appellee's brief, the opinion of which is quoted in the appendix, it appears that the defendants therein engaged in questionable strategy by placing in evidence some eighty-five patents and several excerpts from textbooks and publications (appellee's brief, p. 56) with the probable result that the trial judge concluded that if it was necessary for the defendants to rely upon such an unreasonable number of references that this indicated the presence of invention rather than the lack of it. It does not appear from the opinion that whether the Pierson and Oblasser patents were included in the eighty-five or not.

All of these various considerations referred to by the appellee at pages 16 to 26 of its brief are valueless when, as here appears, the Pierson and Oblasser patents completely anticipate the Griffiths claims.

Antiquity of the Pierson and Oblasser patents does not mitigate against their being anticipations.

The Pierson Patent Discloses the Making of a Putty-like Composition From Nitrocellulose, Volatile Solvent, and Wood Flour Which on Hardening Would Become Essentially a Grainless Wood.

The Pierson patent discloses making up a plastic composition consisting of nitrocellulose, one part; a solvent composed of four parts, each of alcohol and ether; and filler from one to sixteen parts, or 10 to 64%. The filler may be lamp black, plumbago, charcoal powder, sawdust, straw, or any vegetable powder or fiber. In the Griffiths patent in suit, on the other hand, the filler instead of being specified as lying between 10% and 64%, lies between 15% and 30% although

“proportions outside of these limits may be employed.” (Ex. Bk., p. 1, ll. 61 and 62.)

It is the appellant's contention that all that Griffiths did was to reduce or narrow down the wide limits of Pierson. Pierson, on account of having suggested so many different types of fillers, naturally specified the use of a wide range. Griffiths, on the other hand, was dealing with only a few fillers, the preferable one being wood, although, as stated Exhibit Book, page 2, line 2, “any suitable filling material may be used.” The appellee says (appellee's brief, page 27) that the appellant's argument

“is fallacious because it assumes that a person skilled in the art would know that by putting together nitrocellulose, volatile solvent and wood flour, he could make putty which on hardening would become essentially a grainless wood. The Griffiths invention lay primarily in his conception that such a material could be made. Appellant's argument assumes a knowledge of Griffiths' concept.”

At page 29 of appellee's brief, appellee states:

“As already stated Griffiths' fundamental concept was of a doughy putty-like material which could be handled like putty and which, on hardening by mere exposure to the air, would become practically a grainless wood. Griffiths pictured such a material and that it could be made from wood flour held together by nitrocellulose. He was the first to conceive the possibility of making a putty which would turn into a grainless wood and of making it from these well-known materials.”

We propose to reply to these statements and to demonstrate that Pierson did have the same identical concept because it is inherent in the composition that is disclosed in his patent.

As to producing what would become a grainless wood, attention is invited to the fact that nowhere in Griffiths'

specification is there any disclosure of producing a grainless wood. In fact, if other "suitable filling materials may be used" (Ex. Bk., p. 2, ll. 2 and 3) besides wood flour as suggested in the Griffiths patent, not even an artificial wood would be produced but instead a composition possessing properties of the filler selected. It is true that Griffiths' composition will, if a wood filler is employed, produce something resembling wood which is grainless. This is inherent in his composition. But it is also equally inherent in Pierson. Pierson discloses the same materials, to wit, nitrocellulose, volatile solvent, and finely divided wood in such proportions as to be moldable so as to be capable of forming statuary and mouldings, and his materials will produce a grainless wood just as much as the Griffiths' composition. The defendant's expert Roller testified (R., 271):

"Q. Do you know whether these compositions which are described in Pierson and Griffiths are suitable for making something to represent carved wood?

"A. Yes, *any of these plastics, using the ground wood filler of the kind of wood you wish to imitate will take the figuration of any carved moulding and in that way represent an imitation wood, lacking only the grain that a wood would show.*"

In other words, it was just as inherent in the Pierson composition when wood flour was employed that the resulting product should resemble a grainless wood, as in the Griffiths patent. In fact, the Pierson patent so states. Claim 1 of the Pierson patent (Ex. Bk., p. 72) reads:

"*The formation of articles of manufacture resembling stone, wood, whalebone, shell, horn, and other rigid or elastic articles out of plastic or semi-soluble pyroxyline prepared substantially in the manner and for the purposes herein set forth.*"

Pierson thus recognized and had the conception of forming an article resembling wood when he used sawdust, vegetable powder, or fiber as his filler. He so claimed it. To argue that Pierson failed to conceive of producing a grainless wood is contrary to the evidence. He not only had this in mind, but his composition being the same as Griffiths, would necessarily produce the same product inherently.

The appellee also argues that Pierson did not have the conception of making a "putty" from these ingredients, nitrocellulose, solvent, and wood flour filler. The question then is, what is the definition of a putty? Not once in Griffiths' specification does the word "putty" appear. Presumably, the appellee argues, that any composition wherein the filler was between 15 and 30% is a putty and that a composition even outside these limits is a putty, as suggested. (Ex. Bk., p. 1, ll. 61 and 62.) Pierson suggests using a filler content of 10% to 64% depending upon which of his fillers is selected. If a composition containing from 15 to 30% filler, or having filler present outside these limits, can be designated as "doughy" or "putty-like," certainly the same is true of a composition where the filler content is between 10 and 64%. The question also arises as to what is meant by the term "doughy." Not once in Griffiths' specification does this word appear. Does this refer to a consistency such as cake dough which can be poured, or does it refer to a consistency such as that of macaroni dough which is so stiff that it can only be worked and extruded into macaroni by means of powerful machines, or on the other hand, does it refer to a consistency of bread dough. As neither the words "doughy" or "putty-like" appear in Griffiths' specification, these words in Griffiths' claims must be construed as synonymous with "moldable." Defendant's expert Roller testified (R., 264, 265):

“Q. Well, suppose you take the formula given there with the low limit for the filler; that would be one part plastic; alcohol, 4; ether, 4; charcoal powder, 1 part, or sawdust powder one part. That would be a liquid, wouldn't it?

“A. It would be a pretty heavy liquid.

“Q. You said before, doctor, it would be a soupy liquid.

“A. I don't think it would be as thin as soup. I think it would be near the order of honey.

“Q. And if you took sixteen parts of filler, would the material stick together?

“A. It might if you used considerable pressure.

“Q. But not without pressure?

“A. It would require pretty heavy pressure, I believe almost more than you could apply by squeezing it in your hands.”

Now, if a mechanic were proposing to make up a molding or some statuary, which are the purposes stated by Pierson in the middle paragraph of column 1, Exhibit Book, page 72, the only obvious thing for him to do would be to endeavor to arrive at something between these two extremes. If he were making a molding or piece of statuary he would not want his composition as thin as honey, this being the lower extreme, nor would he want it so thick as to require a heavy pressure to cause the material to stick together. Instead, the obvious thing would be to endeavor to strike some happy medium between these two extremes wherein the composition could be molded into the desired shape with very little effort and yet would not be so thin or honey-like as to be incapable of holding its own shape. Roller testified (R. 270):

“Q. Referring to the next paragraph which opposing counsel has designated as paragraph 4c, of what consistency is this composition to be when he is going to use it for making statuary and mouldings as stated in that paragraph in the last few lines?

“A. Of the same consistency that he would have used the materials in the preceding paragraph; in other words, a paste.

“Q. Would you say a putty?

“A. I wouldn't say 'paste.' I think you (would) have a putty or a moulding clay which is of the consistency of putty.

“Q. In this Griffiths patent, the patent in suit, he mentions here that his material is to be used for 'filling, coating or moulding' in the first paragraph, lines 4 and 5. Is there anything in this Pierson patent, paragraph 4c, that indicates to you that the composition is to have the same consistency for moulding as the Griffiths composition when it is used for molding?

“A. No. They both speak of them for moulding; and moulding materials all have the same consistency before they can be used as such.”

It should thus be clear that not only did Pierson conceive of making a plastic composition which when hardened would resemble wood and inherently be grainless, but that he also conceived of having the material moldable and therefore “doughy” or “putty-like.”

To answer the appellee's summary as to the Pierson patent appearing on page 31 of appellee's brief, we submit:

(1) Pierson does teach the possibility of a grainless wood because he claimed in claim 1 the making of articles resembling wood which inherently would be grainless.

(2) Pierson does give a formula and direction for making such a material. He states the quantity of nitro-cellulose to use, the kind and quantity of solvents to use, and the kind of fillers to use including finely divided wood, specifying a range of filler percentages running somewhere between 10% and 64%.

(3) No experimentation is necessary to produce a moldable composition under the Pierson disclosure. All that is necessary is to mix up the nitrocellulose and solvent and then add between 10% and 64% of whatever filler you select until you secure the desired consistency for molding. Some molders may prefer the composition thicker or stiffer than others. They can do as they like.

The appellee urges that it was necessary for Webb and Roller to make a series of experiments with what was disclosed in the Pierson patent before they secured the desired results. This is a misinterpretation of the testimony. As testified by Roller (R. 248):

“Q. Why did you use different proportions of filling material?”

“A. Simply to show the difference in effect of the various relations between the filler and the mineral and the solvents, and the fluidity of this particular nitro-cellulose that was being used.”

Webb testified (R. 298):

“The reason for making this variation was in following these patents there was some variation called for and we wished to demonstrate the effect that the variation of the solvents would have.”

In other words, as Pierson specified a filler content of between 10 and 64%, the defendants made a number of specimens to show that the variation of the filler content was not only optional but that mere increase or decrease

of the filler content would not produce any sharp departure or change in the nature of the composition. Specimens were also made to show that the presence of oil and that the presence of the resin made no sharp departure or change in the composition and that their use was therefore optional and immaterial.

The appellee has argued strenuously that the Pierson patent should not be regarded as an anticipation because Pierson did not have "Griffiths' *fundamental concept*" "of a doughy, putty-like material which could be handled like putty and which on hardening by mere exposure to air would become practically a grainless wood." (Appellee's brief, page 29.) Again on page 27 of appellee's brief they argue:

"The Griffiths invention lay primarily in his *conception* that such a material could be made."

Compare these statements with the statement appearing on page 35 of appellee's brief as follows:

"What Griffiths may have had in his mind when he made his invention is now of no importance."

There are some other interesting statements in appellee's brief. Appellee states, page 48:

"The man skilled in the art can tell from the Griffiths' *claims* what proportions of nitrocellulose, solvent, and filler are needed to give the doughy, putty-like characteristic to the composition, and which will harden into the solidity of wood upon mere exposure to the air."

The Griffiths' claims involved in this appeal state nothing about what these proportions shall be other than the characteristics mentioned in the above statement. If it is true as appellee contends that a man skilled in the art could gain all of this information from the Griffiths' *claims*, then

appellants contend he could gain the same information also from Pierson and Oblasser.

The appellee also states (appellee's brief, p. 48):

“Once an inventor of a new composition has shown in his disclosure how his new composition can be made, it will at once become clear to others familiar with the art that many different proportions can be used, with varying and useful results in the final product.”

We accept this statement but insist that it applies to the Oblasser and Pierson disclosures just as much as it does to Griffiths. Anyone familiar with the Oblasser and Pierson disclosures would immediately know “that many different proportions can be used, with varying and useful results in the final product.” All that Griffiths did was to select a particular proportion within the range taught by Pierson and Oblasser and pretend that he had made an invention. This pretention, while made in the United States, was not even asserted in Griffiths' home country, England, for he made no attempt to secure a patent on his composition in that country.

Griffiths' mere selection of proportions—the mere narrowing down of Pierson's range from 10 to 64% to 15 to 30% is not invention. As said in *Zenitherm Company, Inc. v. Art. Marble Company*, 56 Fed. (2d) 39 (C. C. A. 5):

“The materials, their mixture and pressure being thus old, no proportion of ingredients nor degree of pressure is disclosed by Sutter or particularly claimed by him as producing any new or surprising result. If he discovered any such, he kept silent about it. The increase of any of them to increase their usual effect is not invention. *Finley v. MacDougal Const. Co.*, 28 Fed. (2d), 674.”

Likewise here, not only was Griffiths silent about producing a grainless wood but he was also silent about producing a putty. All proportions between 15 and 30% and even proportions outside these limits were indicated suitable. And as far as Griffiths' claims were concerned—there was no limitation on the proportions whatever except that the composition before hardening was to be moldable and after hardening was to resemble wood. The Pierson composition, as stated in the patent, was to be moldable to produce "statuary and mouldings," and when hardened was to resemble wood as stated in claim 1 of Pierson's patent.

Appellee, at pages 33 to 36 of its brief, seeks to distinguish the various other patents relied upon to show the development of the art. If these patents are distinguishable as contended by appellee, this merely goes to establish that Judge Luhring, who reversed the Patent Office and granted the Griffiths patent, did not have the best prior art before him. He merely considered the patents that appellee now seeks to distinguish and was not advised of the Pierson and Oblasser patents. His opinion reversing the Patent Office under these circumstances, is entitled to no weight whatsoever.

The distinctions pointed out by the appellee however concern merely the nature of the fillers used. Merrick (Ex. Bk. 73) uses cork and asbestos fiber, and suggests the use of wood. Black (Ex. Bk. 91) uses silica. Eckstein (Ex. Bk. 93) uses zinc white or heavy spar. Hyatt & Blake (Ex. Bk. 115) uses ivory dust. Bulling and Reese (Ex. Bk. 130) use calcium chloride and plaster of paris. These distinctions as to the kind of filler used are of little concern. As said in the *Zenitherm* case, *supra*:

"On the question of novelty not only may direct anticipation and known practice in the particular art be looked to, but also the knowledge and practice in

related arts, for it requires no invention to adapt such from one to another of such arts. (Citing cases.) *The art of making artificial wood and artificial stone, and even of making and molding brick and concrete are such allied arts.*”

That these various patents are from closely related arts if not from the same art is established by the Pierson and Oblasser patents themselves. Thus, Pierson discloses making what amounts to plastic stone, plastic wood, plastic whalebone, plastic shell, plastic horn, “and other rigid or elastic articles.” He recognized that the only difference was in the nature of the filler used. Likewise Oblasser contemplated a plastic agglomerate which might have as the filler not only sawdust but asbestos, pounded glass, sandstone, metallic powders, pulverized carbon, etc. Griffiths, himself, recognized the same relation for in his laboratory notebook he contemplated plastic leather (Ex. Bk. 40 and 43); a wood stopping employing starch as the filler (Ex. Bk. 41); plastic carborundum (Ex. Bk. 42), and a filler employing plaster of paris similar to the Bulling and Reese patent (Ex. Bk. 42). Not only did Oblasser and Pierson anticipate Griffiths, but Griffiths made no invention over the balance of the prior art as was held by the Board of Appeals in the Patent Office before the case was reviewed by Judge Luhring.

The Oblasser Patent Likewise Anticipated Griffiths

The appellee complains that the Oblasser patent fails to give any proportions. This is hardly true. The Oblasser patent (Ex. Bk. 82) describes nitrating cellulose to produce nitrocellulose. The nitrocellulose is then dissolved in one of a number of solvents, such as acetone, to form a coating. It is stated that the coating is applied “with a brush, a

spatula, a roller or by any other means.” (Ex. Bk. 82, ll. 46 and 47.) This would indicate to add enough solvent to secure the desired consistency for application depending upon whether a brush was to be used, a spatula, or a roller. Naturally one would desire a thinner coating when applying it with a brush than with a spatula.

Oblasser then proposes making an agglomerate from the coating “susceptible of being moulded.” This would mean to add any of the filling substances such as sawdust, cork waste, cork powder, etc. mentioned in the patent, until the desired consistency was obtained for purposes of moulding. When the agglomerate is obtained

“instead of rendering a receptacle of wood or other material tight by the application of our coating we may manufacture it directly by moulding, use being made of the said agglomerate.” (Ex. Bk. 83.)

The agglomerate therefore was to be used to produce a substitute for wood. A mechanic could certainly arrive at the proper proportions for a moldable corporation with these directions.

The plaintiff-appellee’s expert Esselen sought to distinguish the Oblasser patent by reading into it limitations that it does not contain. He criticizes in the quotation made in appellee’s brief, pages 31 and 32, the use of the agglomerate to make up an open-ended battery box, and suggests that heat and pressure probably were necessary. There is nothing in the Oblasser patent specifying that heat or pressure were used or were necessary. But even if pressure was used with Oblasser’s composition, how does this distinguish from Griffiths? At Exhibit Book, page 2, Griffiths gives a composition (ll. 11 to 20) and then states:

“This mixture is particularly useful for pressing or moulding.”

Again, on the same page, another formula is given (ll. 28-36), and then he states:

“This mixture also is particularly useful for *pressing* or moulding.”

Thus, the Griffiths patent itself contemplated the use of pressure. Oblasser, on the other hand, makes no mention of the use of pressure or of the use of heat. If he did use pressure, this is exactly what Griffiths himself contemplated in the above-quoted statements.

The fact remains that both Pierson and Oblasser anticipated Griffiths in the conception of making up a moldable composition that was to form something resembling wood which consisted of mixing up nitrocellulose, solvent, and finely divided cellulose such as sawdust or other vegetable powders. The consistency of the Pierson and Oblasser compositions was to be the same as Griffiths because they were to be used for molding; so was Griffiths' composition.

The District Judge in the case of the A. S. Boyle Co. v. Harris-Thomas Company, quoted in the appendix to appellee's brief, page 57, noticed:

“In one or two instances at least, inventors have mixed nitrocellulose with sawdust to make artificial wood.”

This finding militates against the appellee's present argument that Griffiths was the first to conceive of making artificial wood from nitrocellulose, a solvent, and sawdust. See also Ex. A30. (Ex. Bk. 144 and 145-146.) The District Court in that case, however errs in the statement on the same page:

“that nobody thought of making it available in the workshops and in the home in the form of a convenient putty for repairs to articles made of wood.”

There is nothing in the Griffiths patent that teaches how to make the composition available in the workshop and in the home in the form of a convenient putty for repairs that is not equally taught in the Pierson and Oblasser patents. It is not even stated in the Griffiths' patent that the composition should be kept canned or that it should be sold in tubes or that supplies of solvent should be kept for thinning the composition when it became too thick. This was done by the plaintiff when it began selling Plaster Wood and making it available for home use, but it is not disclosed in the patent. The District Judge thus erred in that case in assuming that Revised Statute 4886 justified the granting of a patent to someone who undertook to exploit an old and well-known composition by making it available in the workshop and in the home. R. S. 4886 does not provide for granting a monopoly for this accomplishment but only for the development of new and useful inventions whether they are made available in the workshop or in the home or not. As Griffiths failed to make an invention that was not disclosed in the Pierson and Oblasser patents his patent should be declared invalid.

The foregoing argument is directed at claims 5 and 17. Claims 8, 13, and 16 merely differ therefrom by reciting the use of a non-drying oil, the use of acetone as the solvent, and the use of a resinous body, such as ester gum. The appellee has not urged in its brief that these claims should be held valid because of these limitations. In fact, appellee could hardly do so in view of the fact that its own expert Esselen conceded that acetone was a well-known substitute solvent for Pierson's solvent; that the use of castor oil in compositions of this character was well known and produced merely its expected function in the Griffiths' composition and that the use of ester gum in compositions of this character was also well known and merely produced

its expected functions. Claims 8, 13, and 16 thus are not patentably different from claims 5 and 7 and should fall therewith.

The Decision of General Electric Company vs. Wabash Appliance Company

In the above case, which appellee seeks to distinguish, the claims were for a tungsten filament which, if they differed at all from prior tungsten filaments, differed merely in reciting “grains of such size and contour as to prevent substantial sagging and offsetting during a normally or commercially useful life.” The Circuit Court of Appeals for the Second Circuit had held the product anticipated. The Supreme Court, however, found it unnecessary to determine whether the tungsten filament was anticipated or not, and held the claims invalid on their face for failure to comply with Revised Statute 4888. We believe that the doctrine of that case applies here to the phrase in the Griffiths’ claims

“in such proportions as to harden upon mere exposure to air to substantially the rigidity and solidity of wood.”

But regardless of how Griffiths’ claims are worded or might be worded, they are invalid because they are anticipated by the Pierson and Oblasser moldable compositions of the same ingredients which were designed to produce the same type of artificial wood. These claims are not only invalid on their face under the doctrine of the above decision, but in addition, they are clearly and positively anticipated by prior art which was not before Judge Luhring who reversed the Patent Office.

Conclusion

Griffiths' composition is old. He merely revived at the end of the World War what was old in Pierson and Oblasser as a means for using up nitrocellulose that the Explosives Company he was then working for was producing and which they no longer had a market for when the War ended. He disclosed using his composition for "coating, filling, and moulding." While the plaintiff and its predecessors have developed uses that Griffiths did not contemplate, they could have done the same with Pierson's composition as well as Griffiths'. They elected Griffiths because of the fact that a patent was granted to Griffiths, even though erroneously, and this they could use to intimidate competition.

Griffiths' composition was not new. The charge that the defendants availed themselves of what Griffiths gave to the world is contrary to the evidence which shows that the defendant's composition was developed by the intervener independently of the Griffiths' disclosure and that it is a wide departure from what is disclosed in the Griffiths' patent. Griffiths' claims are so broad that if they cover the defendant's compositions, they also cover the Pierson and Oblasser compositions and are thus anticipated by them. No *ex post facto* wisdom is necessary to read and understand the Pierson and Oblasser patents and to produce the same moldable composition therefrom. These claims of the Griffiths' patent should be struck down as invalid.

A reversal of the District Court is urged.

Respectfully submitted,

FRED H. MILLER,
G. E. STEINER,
Attorneys for Appellants.

UNITED STATES CIRCUIT COURT OF APPEALS
FOR THE NINTH CIRCUIT.

No. 8876.

PACIFIC MARINE SUPPLY COMPANY
AND
WEBB PRODUCTS, INC.,
Appellants,

v.

THE A. S. BOYLE COMPANY,
Appellee.

PETITION FOR REHEARING AND BRIEF IN
SUPPORT OF SAME.

GEORGE P. DIKE,
CEDRIC W. PORTER,
for Appellee.

FILED

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UNITED STATES CIRCUIT COURT OF APPEALS
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v.

THE A. S. BOYLE COMPANY, APPELLEE.

PETITION FOR REHEARING.

The Plaintiff-Appellee, The A. S. Boyle Company, respectfully requests this Court to grant a rehearing in this case because of the following errors in the decision:

I The Court's Fundamental Error was in Failing to Put Itself in the Position of the Man Skilled in the Art Who Had no Knowledge of Griffiths' Invention.

A. Having failed to erase from its mind the knowledge obtained from the Griffiths patent and the ingredients which go to make Griffiths' composition, the Court was able to find in the prior art patents knowledge which would have been lacking to one who had not seen the Griffiths patent. The Court has thus violated its own rule laid down in *J. A. Mohr & Son v. Alliance Securities Co.*, 14 (2d) 799 (C. C. A. 9, 1926) wherein Judge Gilbert said (p. 100):

"It is to be borne in mind that the prior art here relied upon consists entirely of patents, and that when it is sought by means of prior patents to ascertain the state of the art, 'nothing can be used except what is disclosed on the face of those

patents. They cannot be reconstructed in the light of the invention in suit, and then used as a part of the prior art'. *Naylor v. Alsop Process Co.*, 168 F. 911, 94 C. C. A. 315; *Frey v. Marvel Auto Supply Co.*, 236 F. 916, 150, C. C. A. 178."

B. To show how completely this Court has been misled by its wrong approach, we respectfully call attention to the testimony of Carleton Ellis, the patentee of patent No. 999,490, one of the patents relied on by this Court, who testified in both *Griffiths v. Robertson* before Judge Luhning and again in *Boyle v. Harris-Thomas* (referred to in the accompanying brief and printed in the Appendix) and candidly expressed his regret and chagrin in not having himself discovered Griffiths' composition when he had been so close to it.

II. Having Adopted a Wrong Approach This Court Gave no Weight to Evidence Which Compels the Conclusion That the Prior Art Had Not Taught the Public What Griffiths Discovered.

(A). The prior art patents do not, in fact, disclose Griffiths' composition.

(B). The following facts prove that the prior art had not taught the public how to make a wood-base putty before Griffiths did so.

(a) There was nothing like plaintiff's "Plastic Wood" on the market before Griffiths' invention.

(b) There was a demand for such material but the public was obliged to continue the use of putty, molten lead, etc., because no material equivalent to Griffiths' wood-base putty was known.

(c) Immediately on appearing on the market the Griffiths' wood-base putty attained a tremendous commercial success.

(d) Griffiths' wood-base putty is capable of useful employment for purposes for which there was previously no available material.

(e) The defendant has adopted the formula of the Griffiths' patent and not the formulae of the prior art patents.

(f) Defendant's own witnesses, Webb and Roller, were unable to make without experimentation a satisfactory wood-base putty on the basis of the disclosure of the Pierson prior art patent.

(g) Twenty-five concerns including the defendants, in the same business as the plaintiff, with the same knowledge of the prior art, failed to make a wood-base putty until after Griffiths' composition appeared on the market, and then promptly copied it in practically identical formula in each case.

(h) The prior patentees Pierson, Oblasser, Ellis, Merrick and Thompson also failed to make a wood-base putty, in spite of the demand for such a material, and after working in the same field of cellulose plastics or lacquers.

The foregoing facts not only throw doubt on the sufficiency of the disclosures of the prior art patents so that the Court should have considered the evidence of commercial success, but they prove conclusively, we believe, that Griffiths did something different from previous inventors, that these differences, whether they be small or great, made the difference between success and failure and consequently that Griffiths made an invention and that the patent is valid.

This Court thus failed to be guided by and to apply the usual rules, standards and tests for determining when invention exists which have been laid down by the courts, as embodied in the above facts.

When there has been a complete revolution in commercial practice coincident with an alleged invention covered by a patent the prior art should be scrutinized with unusual care to make certain that it discloses the invention and in case of doubt, the patent should be sustained. The maxim *ut res magis valeat quam pereat*—the Court should seek to uphold rather than to destroy—should have been applied.

The Court should have observed the rule laid down by Mr. Justice Bradley in *Loom Co. v. Higgins*, 105 U. S. 580 at 591 in a similar situation:

“But it is plain from the evidence, and from the very fact that it [the patented construction] was not sooner adopted and used, that it did not, for years, occur in this light to even the most skilful persons. It may have been under their very eyes, they may almost be said to have stumbled over it; but they certainly failed to see it, to estimate its value, and to bring it into notice. . . .

Now that it has succeeded, it may seem very plain to any one that he could have done it as well. This is often the case with inventions of the greatest merit.”

III. The Court Has Failed to Give to the Decisions of Other Courts Upholding the Griffiths Patent the Consideration Which the Rule of Comity Requires.

This patent has been previously sustained in the District of Massachusetts by Judge McLellan in *Boyle v. Harris-Thomas*, 18 F. Supp. 177, and by Judge Ford in *Boyle v. Siegel*, 26 F. Supp. 217. In each of these cases *all* of the prior art here in question was fully and carefully considered. The patent in suit was also sustained by Judge Thomas in *Boyle v. Rose*, District of Connecticut, a contested case, opinion unreported (see decree, Plfs. Exh. 56 Vol. II, p. 47). The Griffiths patent was also granted after suit in the Supreme Court of the District of Columbia (Judge Luhring) and in this case all of the prior art except the Pierson and Oblasser patents was considered.

To the weight of these decisions should be added that derived from the careful consideration given to the case at bar by Judge Cushman in the District Court.

We respectfully submit that this Court—in justice to a highly meritorious and useful invention, should re-examine the question of invention and the disclosures of the prior art.

Accordingly, the plaintiff-appellee respectfully requests that this case be re-heard and that opportunity be given to explain these matters in detail, to the end that the serious mistakes in the opinion may be corrected, and the correct conclusion be adopted as the decision of the Court.

Respectfully submitted,

GEORGE P. DIKE,
CEDRIC W. PORTER,
for Appellee.

BOSTON, MASS., May 9, 1939.

I certify that this Petition for Rehearing is well founded in law and fact and that it is not filed for purposes of delay.

GEORGE P. DIKE.



BRIEF IN SUPPORT OF PETITION FOR REHEARING.

In the following pages we point out in detail the evidence and principles of law which have been overlooked and which show that the Court's approach to the case and conclusions were wrong.

I. The Court's Fundamental Error Lay in its Failure to Put Itself in the Position of the Man Skilled in the Art Seeking to Solve Griffiths' Problem and Who Did Not Already Know Griffiths' solution for it.

A. In reaching its conclusion here the Court credits the "man skilled in the art" with an omniscience he does not possess and which is contrary to human experience. What is obvious must, of course, be determined under the conditions of actual industrial life, with the court facing the same problems the engineer faced. Griffiths when sought to solve this problem did not know the answer. This Court, when asked to judge the quality of Griffiths' solution of it, did know the answer. Courts sitting in patent matters, and not fully in touch with the actual conditions of industrial life, may fall into this error and therefore must guard continuously against exercising *ex post facto* judgment, wisdom after the fact, or hindsight, and avoid crediting the man "skilled in the art" with a skill he did not, in fact, possess.

We call attention to the following authorities on the necessity for divesting the mind of after-acquired knowledge in approaching a patent case:

"In ascertaining whether the differences between the device in question and the prior art are such as would have spontaneously occurred to a person skilled in the art if he had been

faced with the problem solved by the new device, *it is exceedingly important for the person deciding the question to make a decided and conscious effort to avoid having his eyes sharpened by the inventor's disclosure. The question of interpreting an alleged anticipating disclosure and of determining whether a certain change amounts to invention must involve foresight, not hindsight.*"

In *Diamond Rubber Co. v. Consolidated Rubber Tire Co.*, 220 U. S. 428, the Supreme Court, by Mr. Justice McKenna said (at 435) :

"Knowledge after the event is always easy and problems once solved present no difficulties, indeed, may be represented as never having had any, and expert witnesses brought forward to show that the new thing which seemed to have eluded the search of the world was always ready at hand and easy to be seen by a merely skillful attention. But the law has other tests of the invention than subtile conjectures of what might have been seen and yet was not."

In *Pelton Water Wheel Co. v. Doble*, 190 F. 760 (C. C. A. 911) this Court by Judge Gilbert said (at 764) :

"While it seems a very simple matter to overcome the reactive force of the jet with reference to the governor by changing the plane of the nozzle, *the question of the invention involved in a combination of which that is an element should be regarded as it appeared to those who were skilled in the art who were called upon to deal with the problem, rather than in the light of its subsequent solution.*"

In *Lakeshire Cheese Co. v. Shefford Cheese Co.*, 72 F. (2d) 497 (C. C. A. 7, 1934) Judge FitzHenry said (at 499) :

"Whether a patent involves invention is to be determined in the light of historical facts rather than what might appear to be simple in the light of hindsight."

See also:

Ideal Stopper Co. v. Crown Cork & Seal Co., 131 F. 244 at 255 (C. C. A. 4, 1904).

Naylor v. Alsop Process Co., 168 F. 911, at 917 and 920, (C. C. A. 8, 1909).

Other cases appear in Appellee's Main Brief pages 42-44.

B. That the Court Has Fallen Into This Fundamental Error Is Shown Conclusively By Its Crediting Ellis, Patentee of No. 999,490, with Disclosing Griffiths' Composition in 1911.

Ellis is one of the outstanding chemists in the United States, beginning his active career in 1902. He has taken out a thousand or more patents in his own name and has written several authoritative treatises. He testified in *The A. S. Boyle Co. v. Harris-Thomas* as follows:

"Q. 28. In connection with that work did it occur to you that you could produce with those materials a substance which would be doughy or putty-like, in the first place, and upon mere exposure to air would harden to substantially the solidity and rigidity of wood?

A. *It has been many times a matter of regret to me that the Griffiths idea of a putty-like material which would harden to resemble wood, did not occur to me. Working as I did with materials of this sort, I had everything at hand to produce the composition, except that I lacked the concept of a putty of this type.* Unfortunately, I had been brought up, as it were, with the idea that putty must contain no volatile substances. I had worked with and made various putties from linseed oil and the usual mineral matters, such as clay or whiting, and I had supposed that putty must be free from volatile materials. As a matter of fact, had I been asked, at the time, whether it would be possible to make a wood-base putty of this character, undoubtedly, I should have said, very emphatically, no,

because I should have regarded any composition containing a high proportion of volatile solvent as totally unfeasible as a putty."

Ellis' testimony in *Boyle v. Harris-Thomas and Griffiths v. Robertson* is printed in full in the Appendix attached hereto, with the exception of portions dealing with prior art not material in the present case. Because the Ellis patent was not relied on by defendant at the trial as disclosing Griffiths' invention (*Roller R.* pp. 244-6) there was no reason for presenting Ellis as a witness.

II. The Court was Wrong in Stating That The Prior Art Patents Relied on Disclose Griffiths' Composition. The Proportions of Ingredients Stated In the Prior Art Patents Do Not Produce a Composition Having Griffiths' Properties.

A. *Pierson's* proportions of filler run from 10 to 64% with the resulting product ranging from a thin soupy fluid to a dry mass (*Roller Rec.* pp. 254 and 259).

The disclosure of the *Pierson* patent (*Rec.* p. 72) is only as follows:

"In carbons, etc., take plastic, [nitrocellulose] 1 part; alcohol, 4; ether, 4; charcoal powder, 1 to 16. Lamp black or plumbago may be substituted for the charcoal, sawdust. . . may also be substituted for the charcoal, and oil may often be added to advantage, useful for statuary and moldings . . . and for other purposes".

Pierson did not suggest the use of any particular propositions. Even if we overlook the fact that sawdust is not sufficiently finely divided to be the equivalent of the wood flour called for by the Griffiths patent, that no proportions of wood flour to nitrocellulose and solvent which would produce a doughy, putty-like mass are given, that there is no reference to the initial consistency, *i. e.*, doughy and putty-like, and that there is no reference to the final

consistency (wood-like), who would have known how to make Griffiths' composition from this defective description? **This description teaches only those who have knowledge of Griffiths' composition how to perform his invention.** Exactly the same statements are true of Oblasser's patents.

Oblasser (Rec. p. 79) describes "an agglomerate" made by mixing a coated liquid with a filler for moulding battery boxes under pressure, probably with the aid of heat. The patent gives no proportions for the ingredients whatever. There is no justification in the record whatever for assuming that this product showed Griffiths' proportions of ingredients and properties or produced Griffiths' results. (See *Esselen Rec.* p. 310-311.)

Ellis (Rec. p. 71) was not relied on by the defendant at the trial. (See *Rec.* pp. 244-246.) It appears from *Ellis'* patent and *Ellis'* testimony in the *Harris-Thomas* case, however (Appendix hereto), that in his patent he attempted to make a nitrocellulose or celluloid of reduced inflammability. It was intended to be worked by using hot pressing to shape the material. As *Ellis* testified, to have made the product doughy and putty-like by the addition of a volatile solvent would have been a great mistake because it would cause bad blistering in the hot moulding process. His final product after hot pressing was flexible, more like leather in general physical qualities.

Merrick (Rec. p. 73) discloses a filler for shoe bottoms. It was flexible and not rigid or wood-like. (*Esselen Rec.* p. 308-9.)

The British patent to *Thompson* (Rec. p. 85) discloses merely a thin solution of nitrocellulose of the general type of lacquers.

It is clear beyond question that the prior art patents relied on do not show Griffiths' composition either in proportion or properties. The Court is plainly mistaken on this point.

The Court Was Wrong in Stating That a Man Skilled in the Art Could Tell From the Specifications of Pierson, Oblasser et al., as Readily as From Griffiths' Claims What Proportions of the

Named Ingredients Were Needed to Produce Griffiths' Desired Result.

The Court stated that Pierson's and Oblasser's *specifications* were as definite and specific as are *Griffiths' claims* here involved (Opinion pp. 6-7). Here the Court makes an entirely improper comparison between Pierson's and Oblasser's *specification* and *Griffiths' claims*. *Griffiths' specification* gives the detailed proportions and formulae but these are entirely lacking in Pierson and Oblasser's *specifications*. *Griffiths' claims* are, of course, construed in the light of his *specification*,* under elementary rules of patent law, and when so construed, sufficiently define his invention. For this purpose Pierson's and Oblasser's *specifications* should have been compared with *Griffiths' specification*, not with *Griffiths' claims*.

The quotation from Appellee's Brief (p. 48), while a correct statement, does not support the Court's conclusion in this respect. The statement was made in reply to Appellee's argument that *Griffiths' claims* were indefinite and functional, within the rule of *General Electric Co. v. Wabash*, 304 U. S. 364. But we had previously pointed out (Brief, p. 47) :

"*Griffiths' specification* sets forth the specific proportions of the ingredients required in exact formulae. This was not true in *Pacz*."

* *Fuller v. Yentzer*, 94 U. S. 288 at 288 (1876).

Seymour v. Osborne, 11 Wall. 516 at 547 (1870).

Railroad Co. v. Mellon, 104 U. S. 112 at 118 (1881).

Carnegie Steel Co. v. Cambria Iron Co. 185 U. S. 403 at 432 (1901).

American Fruit Growers Inc. v. Brogdex Co. 283 U. S. 1 at 6 (1930).

B. Having Adopted the Wrong Approach This Court Gave No Attention to Evidence Which Compels the Conclusion that the Prior Art Had Not Taught the Public What Griffiths Discovered.

The following facts prove that the prior art had not taught the public how to make a wood-base putty before Griffiths did so. This evidence was improperly given no weight. These facts are the standard tests for determining the existence of invention.

(a) There was nothing like plaintiff's "Plastic Wood" on the market before Griffiths' invention. (Main Brief, pp. 18-19.)

(b) There was a demand for such material but the public was obliged to continue to use putty, molten lead, etc. because no material equivalent to Griffiths' wood-base putty was known (Appellee's Main Brief, pp. 18-19).

(c) Immediately on appearing on the market, the Griffiths' wood-base putty attained a tremendous commercial success. (Main Brief, pp. 16-17.)

The Court's opinion said:

"Were the question of novelty a doubtful one, some significance might be attached to the claimed commercial success of appellee's product 'Plastic Wood' manufactured, it is said, in accordance with the Griffiths' patent. This, however, is not a doubtful case."

The Court has misunderstood the purpose for which this evidence was offered. It was offered to show that the patents relied on by the defendant-appellee did not in fact disclose the Griffiths' invention because if the prior art had disclosed the invention these patents would have had an effect commercially.

The Court has thus overlooked and arbitrarily rejected evidence that the Griffiths' composition was the result of invention and was not obvious. The record is barren of any evidence that appellee's tremendous commercial success in "Plastic Wood" can be ascribed to anything except that Griffiths' composition was new, useful and

filled a long-felt want. Commercial success should be carefully weighed by the Court and rejected as evidence of invention when it is in fact due to extensive advertising, a new fad or change in style, or the development of a new industry which carries with it a host of minor improvements, as in the *Talking Picture Patents* cases.* But this is not the case here. There is no suggestion of anything of that sort in this record. Tremendous commercial success here indisputably establishes that the Griffiths' composition was not obvious and amounted to invention. This evidence ought not to be ignored. The authorities appear in Appellee's Main Brief (pp. 17-18).

(d) Griffiths' wood-base putty is capable of useful employment and purposes for which there was previously no available material (Main Brief, pp. 19-20).

(e) The defendant has adopted the formula of the Griffiths' patent and not the formulae of the prior art patents.

As Judge Parker said in *Hartford-Empire Company v. Swindell Bros., Inc.*, 99 F. (2d) 61 (C. C. A. 4, 1938), at (p. 63) :

"Nothing can obscure the fact that the result of the invention embodied in plaintiff's structure has been to revolutionize the art with respect to annealing the type of glassware produced by automatic forming machines; and it is the Lehr of this invention which defendants are manufacturing, not the old unit Lehr of the prior art which had failed."

Other cases are cited in Appellee's Main Brief page 26.

(f) Defendant's own witnesses, Webb and Roller, were unable to make a satisfactory wood-base putty on the basis of Pierson's disclosure without experimentation.

The Court violated its own rule that a prior art patent to be effective as an anticipation must describe the invention in such

* *Paramount Publix Corp. v. Am. Tri-Ergon Corp.* 294 U. S. 464 at 474-6 (1934).

Altoona Publix Theatres, Inc. v. Am. Tri-Ergon Corp. 294 U. S. 477 at 487-488 (1934).

full, clear and exact terms as to enable any person skilled in the art to practice it without the necessity of making experiments. (Appellee's Main Brief, pp. 30, 37-40).

(g) Twenty-five concerns, including the defendants, in the same business as the plaintiff and with the same knowledge of the prior art, failed to make a wood-base putty until after Griffiths' composition appeared on the market and then promptly copied it in practically identical formula in each case.

If it were true that the prior art patents relied on disclose Griffiths' composition, obviously the defendants and the twenty-five or more concerns in the same business as the plaintiff which have put out practically identical compositions within three or four years after the appearance on the market of plaintiff's "Plastic Wood" would have produced Griffiths' composition long before Silbersack testified as to this copying by competitors (Rec. pp. 172-173). (Main Brief, p. 26.)

(h) Pierson, Oblasser, Ellis, Merrick and Thompson also failed to make a wood-base putty in spite of the demand for such a material and after working in the same field of cellulose plastics or lacquers.

The great success of plaintiff's "Plastic Wood" and the wide copying of it by plaintiff's competitors after "Plastic Wood" appeared on the market shows a great demand for an article of this nature. That demand would have been supplied long ago by the prior art researches if in fact the Griffiths' composition were obvious (Main Brief, pp. 32, 40-42).

C. The Court Failed to Give to the Decisions of Other Courts Upholding Griffiths' Patent the Weight Which the Rule of Comity Requires.

Five able and experienced patent Judges in five different cases have held the Griffiths' patent valid on practically the same evidence as was before this Court. Their decisions were given no weight whatever.

We respectfully submit that the rule of comity* requires that this Court should re-examine its approach to this case.

These undisputed facts require the Court not to hold the Griffiths' patent invalid except on the clearest, most conclusive and convincing evidence. Such evidence was entirely lacking in this case.

The Court has stricken down a useful and meritorious invention which has benefited the public and many diverse industries and occupations. It has done so on grounds not supported by the evidence, and contrary to the settled rules of patent law. It has unnecessarily destroyed a valuable property right, contrary to the time-honored principle of law expressed by the maxim *ut res magis valeat quam pereat*.**

The fact can not be disputed that it was Griffiths not Pierson, Oblasser, Ellis, Merrick or Thompson, who solved this difficult problem and gave this new product to the public. Ellis has expressly admitted he did not discover it. The result is that a plaintiff whose initiative and industry has given the public this new and useful product is deprived of the just reward granted to it by the patent laws. The defendants, who gave nothing to the public in research and new discovery, are benefited and allowed to reap where they have not sown.

We feel certain that the Court will desire to correct a decision

* *Mast Foos v. Stover*, 177 U. S. 485 at 488-9 (1899).

** In *Turrill v. The Michigan Southern Etc., Railroad Co.* 1 Wall. 491 (1863) Mr. Justice Clifford said (p. 510):

"Patents for inventions are not to be treated as mere monopolies, and, therefore, odious in the eyes of the law; but they are to receive a liberal construction, and under the fair application of the rule, *ut res magis valeat quam pereat*, are, if practicable, to be so interpreted as to uphold and not to destroy the right of the inventor. (*Ryan v. Goodwin*, 3 Sum. C. C. R. 520)."

See also:

Rubber Co. v. Goodyear, 9 Wall. 788 at 795 (1869).

Eibel Process Co. v. Minnesota & Ontario Paper Co. 261 U. S. 45 at 63 (1922).

Hartford Empire Co. v. Swindell Bros. Inc. 96 F. (2d) 227 at 230, (C. C. A. 4, 1938). On rehearing, 99 F. (2d) 61.

which reaches so unjust a result. We, therefore, respectfully request this Court to grant a rehearing in this case.

Respectfully submitted,

GEORGE P. DIKE,
CEDRIC W. PORTER,

for Appellee.

BOSTON, MASS., May 9, 1939.

APPENDIX.

UNITED STATES DISTRICT COURT FOR THE DISTRICT OF MASSACHUSETTS.

THE A. S. BOYLE COMPANY, PLAINTIFF,

v.

HARRIS-THOMAS COMPANY AND LOW SUPPLY
COMPANY, DEFENDANTS.

Appearances:

Messrs. DIKE, CALVER & GRAY (CEDRIC W. PORTER, Esq., for plaintiff).

(ELLIS SPEAR, Esq., for defendants).

DEPOSITION OF CARLETON ELLIS.

Deposition, de bene esse of Carleton Ellis, Esq., of Montclair, New Jersey, under the provision of a statute of the United States, Title 28, U. S. Code, section 639-641, before William H. Osborne, Jr., a Notary Public, at the offices of Messrs. Pitney, Hardin & Skinner, 744 Broad Street, Newark, New Jersey, on Thursday, January 2nd, 1936, beginning at 10:30 A. M., pursuant to notice duly given December 24, 1935; Cedric W. Porter for the plaintiff; No one appearing for the defendants.

CARLETON ELLIS being duly sworn according to law on his oath, testified as follows:

Direct Examination by Mr. PORTER.

Q. 1. You are Carleton Ellis of Montclair, New Jersey? A. Yes.

Q. 2. What is your age and occupation? A. Age, fifty-nine years; occupation, industrial research chemist.

Q. 3. Did you originally plan to testify in open court in this case? A. I did, but the date of trial happened to coincide with a trip which I had long planned and that would take me out of the United States.

Q. 4. When are you leaving the United States? A. I am leav-

ing Montclair, New Jersey, starting on this trip January tenth, 1936.

Q. 5. And returning? A. Probably shall return by the middle or latter part of March, 1936. My trip takes me to the Bahama Islands.

Q. 6. In what have you specialized particularly? A. For very many years I have devoted my time almost exclusively to industrial research in the field of synthetic resins, nitrocellulose lacquers and other lacquers, paints, varnishes and analogous coating compositions.

Q. 7. Will you state, briefly, your education, training and business experience. A. I was graduated from the Massachusetts Institute of Technology in the year 1900, and in the fall of that year went back to the Institute to serve in the chemical department on the instructing staff. At the end of two years I opened a laboratory as a research and consulting chemist, working on and specializing in particularly the field of varnishes and coating compositions.

I operate a large research laboratory at Montclair, New Jersey, which is busied, for the most part, with the development of synthetic resins, plastics and coating compositions.

Q. 8. What is the name of that laboratory? A. The name of the laboratory is Ellis Laboratories of Montclair, New Jersey.

Q. 9. How many employees? A. How many employees? The staff varies, from time to time, but there are, probably, at the present time, between fifteen and twenty employees. Many of these are highly trained chemists, seven of them having the title of Phd., Doctors of Philosophy.

Q. 10. Will you state, briefly, some of your connections as consulting chemist. A. As a consulting chemist I am retained by the Standard Oil of New Jersey in the field of petroleum and similar mineral oils. I am also retained by the Proctor & Gamble Company of Cincinnati, Ohio, in connection with soaps and vegetable oils, shortenings and fatty food products. Also, I am a consultant to the American Cyanamide Company; particularly, however, to a subsidiary company, controlled by the firm mentioned and known as the Rezyl Corporation.

Q. 11. Which makes— A. This concern manufactures a large number of synthetic resins known as rezyls, sold to the paint and varnish trade to make varnishes and lacquers. Another connection is with the Unyte Corporation, of New York City, manufacturing urea formaldehyde, synthetic resins and converting them into molding compositions, which are extensively used throughout the United States.

Q. 12. Have you made any inventions in this field and taken out

letters patent thereon? If so, state approximately how many patents and in general to what they relate? A. My work in the field of industrial research chemistry has led to many inventions which have formed the basis of a series of patents, which patents may number a thousand or more. Most of these relate to resins, lacquers and other nitrocellulose compositions, paints, varnishes, and the like.

Q. 13. Have you written any treatises on the subject of your investigation? A. Whenever I become deeply interested in a subject of research, I make a point to collect the literature on that subject as completely as possible and have felt, after a time, that it was my duty to assemble such material in book form for the convenience of use by other chemists. This led me to publish a number of books on technical subjects, relating largely to the field of oils and resins. One of the first books that I brought out was on Hydrogenation of oils, published by A. Van Nostrand, New York, and has gone to three editions, being revised and enlarged for each successive edition. In 1923 I brought out a volume entitled, "Synthetic Resins and their Plastics".

Q. 14. Published by— A. Published by the Chemical Catalog Company of New York. And it has had a very extensive sale throughout the world and, as a result, the publishers asked me if I would not get out a new edition. Owing to the great activity in this field, the preparation of manuscript of a new edition has taken considerable time. The revision was started in 1932 and the second edition has just been published, bearing the new title, "The Chemistry of Synthetic Resins". The publisher is Reinhold Publishing Corporation, successor to the Chemical Catalog Company. The first edition of "Synthetic Resins" was a volume of about five hundred pages. The new edition is a two-volume set of over sixteen hundred pages.

My interest in petroleum chemistry also led me to publish a book entitled, "The Chemistry of Petroleum Derivatives". This was brought out in 1934, by the Chemical Catalog Company of New York. It is a volume of nearly thirteen hundred pages.

Q. 15. Are you the patentee of Ellis Patent No. 999,490, dated August 1, 1911, for Cellulose-ester composition? A. Yes, sir.

Q. 16. Will you state, briefly, what that ester composition disclosed in your patent is, what it was made of and what its characteristics are? A. In 1907 I recognized the importance of nitrocellulose and thought of some means to reduce its inflammability. Research indicated that chlorinated compounds helped to reduce the hazard and I finally settled on a compound, produced by the reaction of chloral with castor oil, which I incorporated with nitrocellulose. The purpose of this work was to make a celluloid of

reduced inflammability. A product was made which did have the characteristics of celluloid and which could be molded and shaped as celluloid is and although somewhat less inflammable than ordinary celluloid, had a tendency to become acid and also was most costly compared with camphor, ordinarily used in making celluloid, in conjunction with nitrocellulose.

Q. 17. Do I understand correctly that your cellulose-ester composition was like celluloid? A. It was very much like celluloid and had to be worked in the same way by using a hot pressing to shape the material as celluloid is shaped.

Q. 18. Could this composition of yours have been used satisfactorily for the purpose of filling holes or cracks in wood, much in the same manner as putty is used? A. The composition could not by any means have been used satisfactorily as a putty. One of the fillers which I have mentioned in the patent noted is wood flour, but I found that the latter material stimulated the development of acid so that the composition degenerated on standing and also that the acidity, probably due to development of hydrochloric acid, attacked metal parts. For various reasons the composition could not have been used successfully as a putty.

Q. 19. What was the purpose of the addition of the various fillers you mentioned, such as wood flour, in your composition? A. The purpose was two-fold: First, as indicated, I was trying to make a less inflammable celluloid, and, second, I wanted to make it as cheaply as possible. Hence, I found it expedient to try a number of fillers, thinking that these would reduce inflammability and also cheapening the product. The fillers, therefore, were used essentially as baulking or extending agents.

Q. 20. Was your wood flour filler used to give your composition a wood-like appearance of composition? A. That was not the purpose. I tested wood flour as a cheapening and baulking agent, recognizing, of course, that I must not sacrifice the essential appearance of the celluloid-like molded article, which I was seeking to make.

Q. 21. Was your composition a doughy, putty-like, plastic composition, when it was to be used for molding purposes? A. It was not of this character, but more of a powder or metal, which was quite dry, as necessarily had to be the case for hot pressing. The presence of any volatile solvent in hot pressing articles is extremely inimical to the production of a good surface. Therefore, in making molding composition, we always eliminate any volatile solvent for moisture, as completely as possible. Otherwise blistering of the molded article would result, causing its rejection. I did try, according to my patent No. 999,490, the employment of various volatile solvents to assist in making my celluloid in better blended form.

The blended solvents were used in a very limited way for the purpose of incorporation, and then these solvents had to be expelled by heating and drying to prepare the composition for hot pressing.

Q. 22. Did the hot pressing render your composition plastic?
A. Yes.

Q. 23. That was the way it was molded? A. That was the way it was molded, yes.

Q. 24. Did you intend your celluloid composition to be doughy, and putty-like for the purposes of your patent? A. No, it would have been a great mistake for the purposes of the patent to have used the material in a putty-like form at ordinary temperatures. This would mean that some solvent was present which created the softness necessary to give a putty-like body. As stated above, the presence of volatile solvents in celluloid or in any other molding composition is highly unfavorable to the production of a good molded specimen, since that solvent will cause bad blistering and the molded article will be rejected.

Q. 25. Would your composition harden upon mere exposure to air to substantially the solidity and rigidity of wood? A. No, it would not do this, because, primarily, I was seeking to produce a type of celluloid which had to be flexible, or more like leather in general physical qualities.

Q. 26. Was your composition a commercial success? A. The work did not turn out commercially successful, owing, in part, to the high cost of the chloral compound, and also to the slight acidity developed in the composition on standing.

Q. 27. Did you abandon the use of this composition? A. Yes.

Q. 28. In connection with that work did it occur to you that you could produce with those materials a substance which would be doughy or putty-like, in the first place, and upon mere exposure to air would harden to substantially the solidity and rigidity of wood? A. It has been many times a matter of regret to me that the Griffith's idea of a putty-like material which would harden to resemble wood, did not occur to me. Working as I did with materials of this sort, I had everything at hand to produce the composition, except that I lacked the concept of a putty of this type. Unfortunately, I had been brought up, as it were, with the idea that putty must contain no volatile substances. I had worked with and made various putties from linseed oil and the usual mineral matters, such as clay or whiting, and I had supposed that putty must be free from volatile materials. As a matter of fact, had I been asked, at the time, whether it would be possible to make a wood-base putty of this character, undoubtedly, I should have said, very emphatically, no, because I should have regarded any com-

position containing a high proportion of volatile solvent as totally unfeasible as a putty.

Q. 29. Are you familiar with the plastic composition described in the Griffith patent in suit, No. 1838618? A. I am.

Q. 30. Would this Griffith composition, have served the purposes of, or do the work intended by, your composition disclosed in the Ellis patent, we have been talking about? A. The Griffith's composition would not have been satisfactory for that purpose because of its makeup, which would be such that a celluloid-like surface could not be secured, but, in all probability, merely a hopelessly blistered article.

Q. 31. Have you given testimony, before, in litigation involving the Griffith patent application? A. Yes. I testified regarding the character and nature of the Griffith plastic composition, in 1931, in a suit brought in the Supreme Court of the District of Columbia, to compel the issuance of a patent to Griffith.

Q. 32. By reason of that suit and your previous testimony, have you become familiar with the nine patents which were cited by the patent office as references against the Griffith application? A. Those patents are patents to Hyatt and Black, No. 89582; Reagles, 311203; Ellis, 999,490; Merrick, 1,203,229; Black, 1,294,355; Hinze, 1,594,521; Gaul, 1,652,363; the British patent to Bulling and Rees, No. 169,177, of 1922; and the British patent to Mennon, No. 2775 of 1860.

I am familiar with the disclosures of these patents, in a general way.

Q. 33. Now, taking into consideration the knowledge which is given by those patents and assuming that you had that information on November 17, 1923, which is the filing date of the Griffiths' patent in suit, and assuming that you had the ordinary information that was available to a person skilled in the art of making nitro-cellulose compounds, at that time, and knowing that there was a demand for such substances as putty, shellac, sawdust, melted lead, and the like, to fill up holes in wood, would, in your opinion, the patents that I have referred to, have suggested to you the desirability of a wood-base putty or grainless wood or how to make it? A. I do not find any disclosure in these patents which would suggest the idea of a grainless wood putty or how such a product should be made.

Q. 34. Do you find, among those patents, anything that teaches you how to make a grainless wood putty, which is, at first, doughy and plastic and then which dries on mere exposure to air to substantially the rigidity and solidity of wood? A. I do not find any disclosures in these patents which even suggest such a product. . . .

UNITED STATES OF AMERICA.

DISTRICT OF NEW JERSEY,
 COUNTY OF ESSEX, SS:

I, William H. Osborne, Jr., a Notary Public of the State of New Jersey, do hereby certify that on the 2nd day of January, 1936, between the hours of 10:30 and 12:00 in the forenoon, at the office of Pitney, Hardin, & Skinner, 744 Broad Street in the City of Newark, County of Essex and State of New Jersey, pursuant to the notice hereto annexed, which was issued and served in the cause depending in the United States District Court for the District of Massachusetts wherein the A. S. Boyle Company is plaintiff and Harris-Thomas Company and Low Supply Company are defendants, in Equity No. 4091, I was attended by Carleton Ellis, the witness named in said notice, and Cedric W. Porter, of Dike, Calver & Gray, as counsel for the plaintiff, no one appearing on behalf of the defendant, and the said Carleton Ellis being by me first duly cautioned and sworn to testify the truth, the whole truth and nothing but the truth concerning the matters in controversy in said suit, and being carefully examined, deposed and said as in the foregoing annexed deposition set out.

I do further certify that said deposition was taken stenographically and was then and there reduced to typewriting by Roger E. Salmon, an official court reporter in the State of New Jersey, under my personal supervision, and after it had been reduced to typewriting was read over by the said witness, after which it was subscribed by the witness, and the same has been retained by me for the purpose of sealing up and directing the same to the clerk of the Court as required by law.

I further certify that the reason why the said deposition was taken was that the said witness resides more than one hundred miles from the place of trial, to wit: In the Town of Montclair, County of Essex and State of New Jersey.

I further certify that notice was given to counsel for the defendants of the taking of said deposition, as appears by acknowledgment of service endorsed upon the original notice hereto annexed.

I further certify that I am not of counsel or attorney to any of the parties nor am I related by blood or marriage to any of them, nor am I interested directly or indirectly in the event of the cause.

I further certify that the fee for taking said deposition, the sum of \$22.00, has been paid to me by the plaintiff and the same is just and reasonable.

Witness my hand and official seal this 8th day of January, 1936.

WM. H. OSBORNE, JR.

[SEAL]

Notary Public of New Jersey.

IN THE SUPREME COURT OF THE DISTRICT OF
COLUMBIA.

In Equity No. 50,185.

MANFRED E. GRIFFITHS, ET AL., PLAINTIFFS,

v.

THOMAS E. ROBERTSON, COMMISSIONER OF PATENTS,
DEFENDANT.

Washington, D. C., Wednesday, May 27, 1931.

The above-entitled matter came on for hearing before Mr. Justice O. R. Luhring at 10 o'clock A. M.

Present:

On behalf of the Plaintiffs: George P. Dike, Esq., and A. V. Cushman, Esq.

On behalf of the Defendant: T. A. Hostetler, Esq.

CARLETON ELLIS

was thereupon produced as a witness for and on behalf of the Plaintiffs; and, having been first duly sworn, was examined and testified as follows:

Direct Examination by Mr. DIKE.

Q. What is your name? A. Carleton Ellis.

Q. Your age? A. Fifty-five.

Q. Residence and occupation? A. Residence, Montclair, N. J.; occupation, research chemist and consultant to a few concerns.

Q. In what have you specialized particularly? A. Since 1900 I have specialized very largely in plastics, including that of cellulose in its various forms, coating compositions, oils and the like.

Q. Very shortly what is your education, training and experience? A. I was graduated from the Massachusetts Institute of Technology in the chemistry course in 1900 and remained two years with the Massachusetts Institute of Technology, on the instructing staff in the chemical department. Then I became a consultant and have been following research chemistry and consulting work ever since. I am consultant to a number of large concerns, including the Standard Oil Company of New Jersey, and I serve as a member of the Chemical Committee of that company.

Q. Have you ever written at all on the subject of plastics? A.

I have prepared a treatise on the subject of plastics, which I believe is considered authoritative. I have also published various papers.

The Court: What is the title of this treatise?

The Witness: Synthetic Rosins and Other Plastics, published in 1923, by the Van Nostrand Company of New York.

Q. (By Mr. Dike): You are the patentee of patent No. 999,490, dated August 1, 1911, for a cellulose ester composition, Defendant's Exhibit C? A. Yes.

Q. Will you state shortly what that ester cellulose composition is, what it was made for, and what its characteristics are? A. It was my object in 1907 to try to reduce the inflammability of nitrocellulose, and I sought for some compound to mix with it which would reduce the inflammability more or less. I found that by treating castor oil with chloral I had a softening agent for nitrocellulose which would reduce the inflammability. I attempted to make a composition which I could mold into various shapes by hot pressure in the same manner that celluloid is shaped under present practice. In the course of that work I tested the effects of certain fillers, and among these was wood flour.

I found to my surprise, however, that wood flour tended to render the composition acid through some obscure reaction, and that such compositions would affect metals, corroding them, not greatly but sufficient to be objectionable.

In the course of that work I also employed certain solvents to obtain a better blending of the chloral compound in the nitrocellulose, and I mention in the patent that I used acetone and similar volatile solvents. But these were not used for the purpose of making a dough-like composition which would have been inimical to the production of a good plastic.

A plastic which has to be hot pressed should be free from solvent, otherwise blistering occurs. So I attempted to get a granular form of material free from solvents which when hot pressed would give me a product resembling celluloid but with diminished inflammability. This patent was the result of that work.

Q. Was it a success? A. I regret to say it was not a success for several reasons. One was the high cost of the chloral compound. One was this difficulty from slight acidity, and various other conditions which arose and made it uncommercial.

Q. So you abandoned it, practically? A. I had to give it up, yes.

Q. In connection with that work did it occur to you that you could produce with those materials a substance which would be doughy or putty-like in the first place and on air hardening would

become wood-like? A. I regret to say that it did not. I should feel myself quite fortunate if I had thought of that idea at the time, because I had materials in front of me with which I could have made the wood base putty of Griffiths. But I did not have the concept that a dough-like material could be made which would harden on drying quickly and serve as a filling material for holes and cracks, and so forth. In fact, if I had been asked at the time whether or not a wood-base putty of this character could have been made in this way, I should have said no, I do not think it could be. I should have regarded it as impracticable. It would not have looked feasible to make anything from a material like wood flour, nitrocellulose and volatile solvents which could be worked like putty.

So I was quite surprised a few years ago when I first ran across this product of Griffiths and worked a little bit with it in my home to fill up some cracks in a door to discover that it was made from wood flour and nitrocellulose and solvent.

Ordinarily I would have expected at that time that shrinkage would have been so serious a matter that there would have been no true putty-like effect. Ordinary putty made from whiting and linseed oil is a very dense material and has nothing to evaporate; and in the old days we supposed that a putty had to be something that contained no volatile materials, but Griffiths has demonstrated that putties can be made even though volatile solvents are present.

Q. Are you familiar with the nine patents which were discussed by Dr. Esselen and which are Exhibits A to I, inclusive? A. I know of their general composition.

Q. Now, taking into consideration the knowledge which is given by those patents, and assuming that you had that information on November 17, 1923, and the ordinary information that was available to a person skilled in the art of making nitrocellulose compounds at that time, and knowing that there was a demand for such substances as putty, shellac, sawdust, melted lead and the like to fill up holes in wood, would, in your opinion, the patents that I have referred to have suggested to you the desirability of wood-base putty or grainless wood, or how to make it? A. They would not have suggested such an idea, nor would they have taught one how to make such a product.

The Court: As a matter of fact, did you not have those patents before you when you were experimenting with your own business?

The Witness: I had some of them, to be sure, but not all of them. Most of them are of a later date than my patent.

Q. (By Mr. Dike): They are all before the date in 1923? A. Yes.

Mr. Dike: I used the date 1923, which is the date of the Griffiths application, but Mr. Ellis' patent goes back to 1907 I might add that under the Patent Law a person skilled in the art is theoretically charged with a knowledge of all issued patents.

Q. (By Mr. Dike): Do you find among those patents any that teaches you how to make a grainless wood which is first plastic and doughy-like and then on drying in the air becomes hard like wood?

A. I do not.

Mr. Dike: That is all.

Mr. Hostetler: No cross-examination.

United States

Circuit Court of Appeals

For the Ninth Circuit.

INVESTORS SYNDICATE, PORTLAND TRUST
AND SAVINGS BANK, Trustee, and MET-
ROPOLITAN LIFE INSURANCE COM-
PANY.

Appellants.

vs.

LLOYD R. SMITH, Trustee in the Matter of
Guaranty Trust Company, a corporation, and
National Investment Company, a corporation,
its affiliate, Bankrupts, GESINA KING,
HELEN WINSOR JOHNSON, BERT WHY
and ELSA STRATHMAN, MRS. GOW WHY,
CONRAD BAURIEDEL, IDA ISABELL
NEILSON, GEORGE J. and EMMA C.
FOURIER, JAMES T. JONES and LOUIS
KNUTSON, and RALPH A. COAN and S. J.
BISCHOFF.

Appellees.

Transcript of Record

Upon Appeal from the District Court of the United
States for the District of Oregon.

PAUL P. O'BRIEN,
Clerk



United States
Circuit Court of Appeals

For the Ninth Circuit.

INVESTORS SYNDICATE, PORTLAND TRUST
AND SAVINGS BANK, Trustee, and MET-
ROPOLITAN LIFE INSURANCE COM-
PANY,

Appellants,

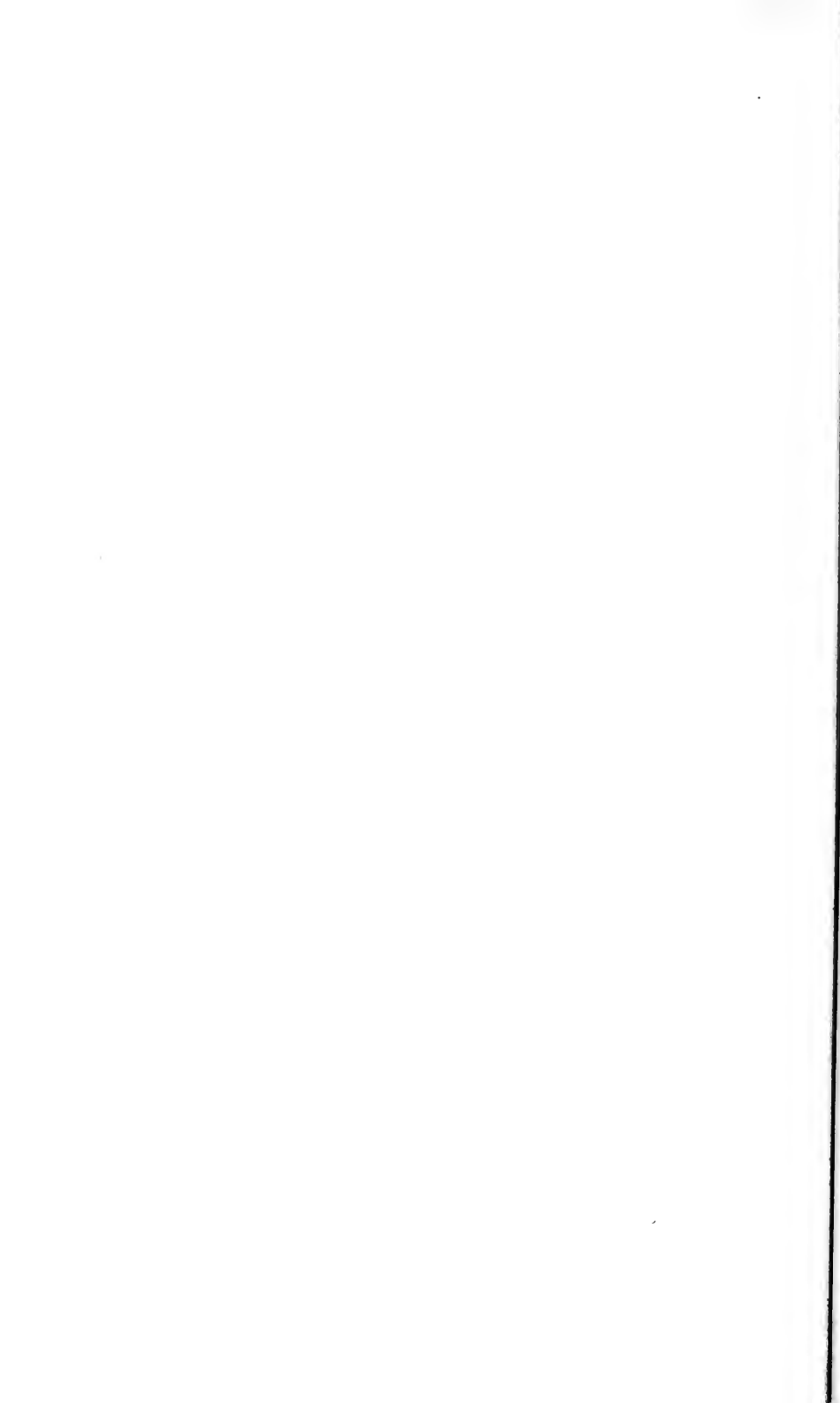
vs.

LLOYD R. SMITH, Trustee in the Matter of
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Transcript of Record

Upon Appeal from the District Court of the United
States for the District of Oregon.



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[Clerk's Note: When deemed likely to be of an important nature, errors or doubtful matters appearing in the original certified record are printed literally in *italic*; and, likewise, cancelled matter appearing in the original certified record is printed and cancelled herein accordingly. When possible, an omission from the text is indicated by printing in *italic* the two words between which the omission seems to occur.]

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NAMES AND ADDRESSES OF ATTORNEYS
OF RECORD

STEPHEN H. BOYLES,

Mead Building,
Portland, Oregon,

HERBERT L. SWETT,

Pacific Building,
Portland, Oregon.

VERNE DUSENBERRY,

Spalding Building,
Portland, Oregon,
For Appellants.

McCAMANT, THOMPSON & KING,

American Bank Building,
Portland, Oregon,
For Lloyd R. Smith, Trustee, Appellee.

S. J. BISCHOFF,

Public Service Building,
Portland, Oregon.

RALPH A. COAN,

Pittock Block,
Portland, Oregon,
For Intervening Creditors, Appellees.

In the District Court of the United States,
for the District of Oregon

No. B-18784

In the Matter of

GUARANTY TRUST COMPANY, a corpo-
ration, and NATIONAL INVESTMENT
COMPANY, a corporation, its affiliate,
Bankrupts.

INVESTORS SYNDICATE, PORTLAND TRUST
AND SAVINGS BANK, Trustee, and MET-
ROPOLITAN LIFE INSURANCE COM-
PANY,

Appellants,

vs.

LLOYD R. SMITH, Trustee in the Matter of
Guaranty Trust Company, a corporation, and
National Investment Company, a corporation,
its affiliate, Bankrupts, GESINA KING,
HELEN WINSOR JOHNSON, BERT WHY
and ELSA STRATHMAN, Petitioning Cred-
itors, MRS. GOW WHY, CONRAD BAURIE-
DEL, IDA ISABELL NEILSON, GEORGE
J. and EMMA C. FOURIER, JAMES T.
JONES and LOUIS KNUTSON, Intervening
Creditors, and RALPH A. COAN and S. J.
BISCHOFF,

Appellees.

CITATION ON APPEAL

To Lloyd R. Smith, Trustee in the Matter of Guaranty Trust Company, a corporation, and National Investment Company, a corporation, its affiliate, Bankrupts, Gesina King, Helen Winsor Johnson, Bert Why and Elsa Strathman, Petitioning Creditors Mrs. Gow Why, Conrad Bauriedel, Ida Isabell Neilson, George J. and Emma C. Fourier, James T. Jones and Louis Knutson, Intervening Creditors, and Ralph A. Coan and S. J. Bischoff, and each of you Greeting:

You, and each of you, are hereby cited and admonished to be and appear in the United States Circuit Court of Appeals, for the Ninth Circuit, to be held in the City of San Francisco, in the State of California, in said Circuit, within thirty days from the date of this writ, pursuant to a Petition on Appeal and Assignment of Errors filed jointly and severally by Investors Syndicate, Portland Trust and Savings Bank, Trustee, and Metropolitan Life Insurance Company, and each of them, in the Clerk's Office of the District Court of the United States, for the District of Oregon, In re Matter of Guaranty Trust Company, a corporation, and National Investment Company, a corporation, its affiliate, Bankrupts, to show cause if any there be why the order rendered in said cause on the 8th day of June, 1938, sustaining the exceptions

of the petitioning and intervening creditors and of Ralph A. Coan and S. J. Bischoff to the Conclusions of Law numbered from one to ten inclusive of the Report of the Special Master on file in said proceedings, and holding that the rentals in the hands of the Trustee in Bankruptcy collected from mortgaged properties constitute general assets applicable for the payment of expenses of administration and the claims of the general creditors, as in said Petition on Appeal, should not be corrected, and why speedy justice should not be done to the parties in that behalf.

Witness the Honorable James Alger Fee, Judge of the United States District Court, for the District of Oregon, this 1st day of July, 1938.

JAMES ALGER FEE

United States District Judge

Service of the within Citation and receipt of a copy thereof, admitted the 5th day of July, 1938.

McCAMANT, THOMPSON,

KING & WOOD

Of Attorneys for Lloyd R. Smith,
Trustees in Bankruptcy

S. J. BISCHOFF & RALPH A. COAN

Attorneys for Petitioning and
Intervening Creditors

S. J. BISCHOFF & RALPH A. COAN

Appellees

[Endorsed]: Filed July 5, 1938.

[Title of District Court and Cause.]

AGREED STATEMENT OF THE CASE
UNDER EQUITY RULE 77

It is hereby stipulated by and between the parties to this appeal that the questions presented by this appeal can be determined by the Appellate Court without an examination of all of the pleadings and evidence, and that the following is a statement of the case showing how the questions arose and were decided in the District Court, and sets forth only so much of the facts alleged and proved, or sought to be proved, as is essential to decision of such questions by the Appellate Court:

This cause arises on appeal from an order of the District Court dated June 8, 1938, sustaining exceptions to the Special Master's report dated November 14, 1936, filed November 16, 1936, which order is part of the record on this appeal.

The present bankruptcy proceedings were instituted on January 29 1934, [1*] by filing of an involuntary petition in bankruptcy against Guaranty Trust Company, which proceedings shortly thereafter were extended to include and made to apply to National Investment Company, a wholly owned corporation affiliated with Guaranty Trust Company. While such proceedings were pending on such involuntary petition, and before adjudication in bankruptcy, to wit, on July 11, 1934, a supplemental answer of Guaranty Trust Company was

*Page numbering appearing at the foot of page of original certified Transcript of Record.

filed to the original involuntary petition and an intervening petition, praying for reorganization of the alleged bankrupt under Section 77B of the Bankruptcy Act. On the same date an ex parte order was entered to the effect that said supplemental answer was filed in good faith under Section 77B, and the entire matter was referred to Roy F. Shields, Special Master, to have hearings thereon and to make his report to the Court. Thereafter, pursuant to due notice to creditors, a hearing was held before the Special Master on August 2, 1934. By the Special Master's Report filed August 13, 1934, it appears that among the parties present at such hearing were the attorneys for the appellants herein, who "appeared and announced that they intended to appear specially in behalf of the several creditors holding mortgages upon the several parcels of real property owned by the alleged bankrupt and/or its affiliated corporation, the National Investment Company". The Special Master's report further set forth that the petitioning and intervening creditors as well as the mortgage creditors, including appellants herein, opposed the continuance of the alleged bankrupt in possession of the assets and business of the corporation. Said report further shows that at an adjourned hearing there was filed with the Special Master by counsel for appellants, written objections to the plan of reorganization embodied in said supplemental answer of the debtor, and oral objections to the continuance of the bankrupt in possession during the

pendency of the proceedings. The Special Master found that it was for the best interests of the parties that a trustee be appointed to take possession of the debtor's assets, and he further found and recommended:

“that a separate account should be kept by the trustee of all moneys coming into his hands from the several sources so that the disposition of said funds can ultimately be made in accordance with the determination that the Court may hereafter make as to the ownership thereof, and in particular that separate account be kept of the moneys received from the operation of each of the properties covered by said mortgage”. [2]

The Master further recommended that

“an order be made and entered herein appointing a trustee of the property, assets and business of the alleged bankrupt, with instructions that all income, revenue and receipts that shall come into his hands shall be segregated and handled as above suggested”.

The Court, on August 13, 1934, confirmed the foregoing report and appointed a trustee to take possession of the property, assets and business of the debtor companies, with authority to manage, operate and control the property and assets coming into his possession, which order further states:

“Ordered that the said Trustee will keep separate accounts of all moneys coming into his

possession from each of the several properties of the debtor or its said affiliate, and that the trustee's accounts shall be kept so that all income and revenues received and expense incurred in the operation of each of such properties can at all times be ascertained and segregated."

Owing to the fact that the named trustee did not qualify, a new order was entered September 10, 1934, appointing C. W. Twining as Trustee, with power and authority similar to the foregoing and containing the above quoted provision as to accounting of moneys. Said trustee qualified.

Prior to the filing of the involuntary petition in bankruptcy herein, to wit, under date of August 2, 1933, Portland Trust & Savings Bank, Trustee, one of the appellants herein filed in the Circuit Court for Multnomah County, Oregon, two foreclosure suits on real properties the legal title to which was vested in Guaranty Trust Company. One foreclosure covered the apartment house known as Adele Manor and the other foreclosure covered the apartment house known as Charmaine Manor, being numbered in the said Circuit Court 110-661 and 110-662, respectively. The mortgages involved in these suits were both delinquent as to payment of principal, interest and taxes, interest being delinquent for more than one year and no taxes having been paid on the mortgaged premises since the year 1929. Each suit was brought for full balance of

the mortgages, by right of acceleration reserved in the mortgages. At the time of the filing of these suits, plaintiff therein applied for the appointment of a receiver, but at the time of hearing said application in each of said causes, the Judge of the [3] state court entered the following order:

“[Title of Court and Cause.]

ORDER

“This cause coming on regularly for hearing this 10th day of August, 1933, on the order issued in the above entitled Court and cause on the 2nd day of August, 1933, requiring the defendant Guaranty Trust Company to show cause before this Court why an order should not be entered herein appointing some suitable and proper person to act as Receiver of the property involved in said suit during the pendency thereof, the plaintiff appearing by its attorney, Verne Dusenbery, and the defendant Guaranty Trust Company appearing by its attorney, John W. Kaste; and

It appearing to the satisfaction of the Court, after due hearing and upon said order to show cause, that the property involved in said foreclosure suit is an apartment house consisting of twenty-three apartments which are yielding a monthly rental income, and that in the opinion of the Court, the interest of all parties to said suit may be protected by requiring the defendant, Guaranty Trust Company, to file in

this Court during the pendency of this suit, verified monthly accounts showing all money received and all disbursements made in the operation of said apartment house, and to pay the net income from said property into Court to be disposed of according to the further order of the Court, and that the necessity of a receiver may be thereby dispensed with:

It is ordered that on the 12th day of August, 1933, and monthly thereafter on the 12th day of each and every month during the pendency of this suit, the defendant Guaranty Trust Company serve on the attorneys for the plaintiff and file herein, a verified account and report covering the operation of the apartment house involved in this suit during the preceding month (the first of said reports covering the period of time from August 1st to and including August 11th, 1933), showing all rentals and other income received from said apartment house and all disbursements made on account thereof during said accounting period; and that said Guaranty Trust Company, at the time of filing said account and report, pay into the Court the net income derived [4] from said mortgaged premises during said accounting period, to be held as a part of the security for said mortgage indebtedness and to be applied according to the further orders of the Court.

Dated this 10th day of August, 1933.

1/s/ HALL S. LUSK

Judge''

Thereafter and prior to bankruptcy, the State Court modified said order by providing that Guaranty Trust Company might deduct from the net rentals 20% as compensation for use of furniture owned by Guaranty Trust Company and situated in said apartment houses.

On the date of said order and continuing until the month of June, 1934, Guaranty Trust Company filed in said state foreclosure suits monthly statements in compliance with said orders and paid to the clerk of said court the net rentals derived from said apartment houses, after deductions as aforesaid. These moneys are not involved in the present proceeding since the bankruptcy court neither required nor claimed jurisdiction thereover.

On January 31, 1934, the District Court made an order herein to the effect that "all suits, actions, and proceedings now pending against the alleged bankrupt be stayed until the entry of an order of adjudication herein * * *". On April 25, 1934, Guaranty Trust Company filed in the bankruptcy proceedings a motion, supported by affidavit, for an order modifying the order of January 31, 1934, insofar as same affected the said foreclosure suits of Portland Trust & Savings Bank in the State Court, numbered 110-661 and 110-662. Said motion to modify was granted by an order in the Bankruptcy Court dated April 25, 1934, stating as follows:

"1. That the alleged bankrupt shall not be restrained from complying with the order of

the Circuit Court of the State of Oregon, entered in the aforesaid foreclosure proceedings, requiring it to pay into Court monthly the net proceeds derived from the operation of the properties described in the foreclosure proceedings.

2. That the parties to the two foreclosure proceedings pending in the Circuit Court of the State of Oregon, for Multnomah County, respectively numbered 110661 and 110662, shall be and they hereby are permitted to continue the prosecution proceedings, with leave, however, to renew the [5] application for a stay of said proceedings.”

Upon the institution of 77B proceedings herein in June 1934, Guaranty Trust Company continued to make monthly reports of receipts and disbursements derived from said apartment houses, but instead of filing same with the clerk of said court, delivered same to John W. Kaste, general counsel for Guaranty Trust Company, and paid to him from month to month the amount of said net rentals. Said monthly reports and net rentals were received and held by John W. Kaste, he being uncertain to whom said funds belonged, until possession of said mortgaged premises was taken by the Trustee in Bankruptcy herein on September 11, 1934. Thereafter, until November 1934, C. W. Twining as such Trustee in Bankruptcy, paid over to said Kaste the net monthly rentals derived from said apartment houses

with the intention that same be paid to the clerk of the court in which said foreclosure proceedings were pending. In this manner there was accumulated in the hands of John W. Kaste the sum of \$2050.00, from which had been deducted 5% management fee, but without deduction for use of furniture. After the month of November 1934 said Trustee made no further payments to said Kaste on account of rentals on Adele Manor or Charmaine Manor apartments, but retained same. Later, pursuant to order of the District Court in the bankruptcy proceedings, said sum of \$2050.00 was paid by Kaste to said Trustee and has ever since been retained by the Trustee and his successors in office.

All moneys collected by the Trustee herein and his successors in office, by way of rental from the Adele Manor and Charmaine Manor apartments, mortgaged to Portland Trust and Savings Bank as aforesaid, have been placed and are still held in a separate bank account, and the Trustee has reported of record that all of said rentals so collected by the Trustee aggregate the sum of \$7709.00, for which the present Trustee holds certificates of deposit in The Bank of California.

At the hearing before the Special Master, November 20, 1935, S. J. Bischoff, one of the attorneys for the Petitioning and Intervening Creditors, was sworn and examined as a witness on his own behalf by Ralph Coan, who was also attorney for the Petitioning and Intervening Creditors, and was cross-[6] examined by John W. Kaste, attorney for the

debtor, as follows: (At said hearing it was stipulated by all parties that all evidence presented at said hearing, insofar as applicable, might be considered for or against any petition then being heard)

“Q. Did Jay Moltzner ever call you from the directors’ room?

“A. Yes, he did; he called me up to inquire the amount of money that was on hand with the trustee.

“Q. And did you tell him over the telephone that you would find out from Mr. Twining in a few minutes and call him back?

“A. I told him that we would try to get the figures from Mr. Twining and phone him, in fact I told him that I was busy at the time and I would have Mr. Coan communicate with Mr. Twining.

“Q. And did you get the figures from Mr. Twining and telephone them to Mr. Moltzner?

“A. I don’t know. Mr. Coan handled that.

“Mr. Coan: You can put me in the record as saying I did.

“Mr. Kaste: And did you thereupon telephone to Mr. Moltzner the amount of money which was in the trust fund?

“Mr. Coan: No, I told him the information I had received from Mr. Twining.

“Mr. Kaste: And what was that information that you received from Mr. Twining as to the amount of money that was in the trust

fund? By 'trust fund' I mean money that had been segregated and held apart as money for the mortgagees.

"The Witness: Is that question directed to me or Mr. Coan.

"Mr. Kaste: You said you didn't know.

"Mr. Coan: You had better have me sworn.

"The Special Master: Well, counsel is just asking you, I suppose.

"Mr. Coan: All right. I think about six thousand dollars as I remember it.

"Mr. Kaste: You got that information from Mr. Twining?

"Mr. Coan: Over the telephone.

"Q. (By Mr. Kaste): Now, Mr. Bischoff, why was the money in the trust fund brought into the picture of a proposed settlement? Was it for the purpose of having the officers of the corporation use the trust fund for the purpose of making a settlement with you?

"A. I don't know why Mr. Moltzner wanted that information, but in the course of our conversation the question of how they were to pay the settlement arose and we told Mr. Moltzner that under no circumstances would we be a party to any proceedings contemplated taking any money on deposit; that if they were going to make a settlement it would have to be with funds coming from an independent source."

By the present appeals each of the appellants, as mortgage creditors, seeks to assert its claim to all rents and profits collected or received by the Trustee of this bankrupt estate from the respective mortgaged properties, less management fee and furniture rental. The claims so asserted are as follows:

[7]

Portland Trust and Savings Bank under date of February 5, 1935, duly served and filed in the bankruptcy proceedings a verified petition for rents and profits which, omitting formal parts, is as follows: [8]

[Title of Court and Cause.]

PETITION OF PORTLAND TRUST AND SAVINGS BANK, TRUSTEE, FOR ORDER DIRECTING PAYMENT OF RENTS AND PROFITS

Comes now Portland Trust and Savings Bank, Trustee, and respectfully petitions the Court for an order requiring John W. Kaste, the attorney for the alleged bankrupt, and C. W. Twining, Trustee in Bankruptcy, to pay rents and profits of real property hereinafter described, and in support of said petition alleges:

I.

That petitioner now is, and at all times herein mentioned has been, a savings bank and trust company organized under the laws of the State of Oregon, transacting business in Portland, Multnomah County, Oregon.

That C. W. Twining is the duly appointed, qualified, and acting Trustee in Bankruptcy under order entered herein pursuant to the provisions of Section 77B of the National Bankruptcy Act.

That John W. Kaste now is, and at all times herein mentioned has been, an attorney of record in the above entitled cause for Guaranty Trust Company, the alleged bankrupt, and National Investment Corporation, its affiliate.

II.

That on or about the 28th day of March, 1928, Harry Mittleman and Helen R. Mittleman, for a valuable consideration executed and delivered to Portland Trust and Savings Bank, as Trustee, seventy-nine promissory notes, dated on that day, whereby they promised to pay to said Portland Trust and Savings Bank the sum of \$52,500.00, according to the tenor and effect of said promissory notes.

That on or about the 30th day of March, 1928, the said Harry Mittleman and Helen R. Mittleman were the owners in fee simple of that certain real property situated in the City of Portland, Multnomah County, Oregon, and described as Lots numbered Thirty (30), and Thirty-four (34), in Cedar Hill, an addition within the corporate limits of the City of Portland, and for a valuable consideration to them in hand paid the said Harry Mittleman and Helen [9] R. Mittleman executed and delivered to Portland Trust and Savings Bank a mortgage in-

strument in writing, whereby said real property was mortgaged to petitioner to secure the payment of the above described promissory notes, and said mortgage was recorded on the 2nd day of April, 1928, in Book 1320, at page 261 of the Mortgage Records of Multnomah County, Oregon. That the balance unpaid on said mortgage indebtedness is the sum of \$48,500.00, with interest thereon at seven per cent per annum from the 5th day of December, 1932.

III.

That on or about the 17th day of July, 1928, Harry Mittleman and Helen R. Mittleman, for a valuable consideration, executed and delivered to Portland Trust and Savings Bank, as Trustee, seventy-one promissory notes, dated on that day, whereby they promised to pay to said Portland Trust and Savings Bank the sum of \$50,000.00, according to the tenor and effect of said promissory notes.

That on or about the 17th day of July, 1928, the said Harry Mittleman and Helen R. Mittleman were the owners in fee simple of that certain real property situated in the City of Portland, Multnomah County, Oregon, and described as Lots numbered Twenty-nine (29) and Thirty-five (35), in Cedar Hill, an Addition within the corporate limits of the City of Portland, Multnomah County, Oregon, and for a valuable consideration to them in hand paid, the said Harry Mittleman and Helen R. Mittleman executed and delivered to Portland Trust

and Savings Bank a mortgage instrument in writing, whereby said real property was mortgaged to petitioner to secure the payment of the above described promissory notes, and said mortgage was recorded on the 18th day of July, 1928, in Book 1345, at page 209 of the Mortgage Records of Multnomah County, Oregon. That the balance unpaid on said mortgage indebtedness is the sum of \$47,000.00, with interest thereon at seven per cent per annum from the 17th day of October, 1932.

IV.

That Portland Trust and Savings Bank, as Trustee, has been at all times herein mentioned, and now is, the owner and holder of the promissory notes and mortgages described in paragraphs II and III hereof, and has full power and authority to collect and foreclose the same. That the tracts of real property [10] covered by and described in the foregoing mortgages have been by mesne conveyances transferred and conveyed to Guaranty Trust Company, a corporation, and said Guaranty Trust Company has assumed said mortgages and agreed to pay the indebtedness secured thereby.

V.

That the said Harry Mittleman and Helen R. Mittleman and Guaranty Trust Company, a corporation, failed to make the payments of principal and interest due under the terms and provisions of said promissory notes and mortgages as the same became due and payable, and by reason of said de-

faults, the petitioner filed on August 2, 1933, two separate suits to foreclose said mortgages in the Circuit Court of the State of Oregon for Multnomah County, one of said suits being cause number 110661, entitled Portland Trust and Savings Bank, a corporation, Trustee, Plaintiff, vs. Harry Mittleman and Helen R. Mittleman, husband and wife, Kate B. Winsor, Guaranty Trust Company, a corporation and Washington Mutual Savings Bank, a corporation, Defendants, for the foreclosure of the mortgage described in paragraph II hereof, and the other of said suits being cause number 110662, entitled Portland Trust and Savings Bank, a corporation, Trustee, Plaintiff, vs. Harry Mittleman and Helen R. Mittleman, husband and wife, Guaranty Trust Company, a corporation, and Washington Mutual Savings Bank, a corporation, Defendants, for the foreclosure of the mortgage described in paragraph III hereof. That answers to the complaints in said suits have been filed on behalf of the various defendants thereto, including Guaranty Trust Company, and said suits are still pending in said Court awaiting trial.

VI.

That at the time of the commencement of said suits the plaintiff moved the Court in each of said suits for the appointment of a receiver to take charge and possession of the mortgaged premises and to collect the rents, issues, and profits therefrom and apply the same according to the order of

the Court. That said motion for receiver was based upon the fact that the said mortgaged premises in each case were improved by an apartment house which was rented to various tenants and was yielding and capable of yielding a substantial sum in rentals, and upon the further ground that it is provided in said mortgages [11] that in the event of default in the payment of the principal and interest provided for in said notes and mortgages and the institution of foreclosure proceedings, a receiver should be forthwith appointed to collect the rents, issues, and profits from the mortgaged premises and apply the same according to the order of the Court, said rents and profits having been specifically mortgaged and hypothecated as a part of the security for said mortgage indebtedness. That said motions for the appointment of receivers in said foreclosure suits came on for hearing on the 10th day of August, 1933, the plaintiff appearing by its attorneys, Crum & Dusenbery, and the defendant, Guaranty Trust Company, appearing by its attorney, John W. Kaste; whereupon the Court, in lieu of appointing a receiver in said suits for the collection of the rents, issues, and profits deriving from said mortgaged premises, made and entered an order in each of said suits, dated August 10th, 1933, providing that in the opinion of the Court the interest of all parties to the suit would be protected by requiring the defendant, Guaranty Trust Company, to file in said Court during the

pendency of said suits verified monthly accounts showing all money received and all disbursements made in the operation of said apartment houses, and to pay the net income from said property into Court to be disposed of according to the further order of the Court; and the Court thereby ordered that on the 12th day of August, 1933, and monthly thereafter on the 12th day of each and every month during the pendency of said suits, the defendant, Guaranty Trust Company, serve on the attorneys for the plaintiff and file in said suits a verified account and report covering the operation of said apartment houses involved in said suits during the preceding month, the first of said reports covering the period of time from August 1st to and including August 11th, 1933, showing all rentals and other income received from said apartment houses and all disbursements made on account thereof during said accounting period; and that said Guaranty Trust Company at the time of filing said account and report, pay into said Court the net income derived from said mortgaged premises during said accounting period, to be held as a part of the security for said mortgage indebtedness and to be applied according to the further orders of the Court. [12]

That thereafter the orders above described requiring Guaranty Trust Company to pay all of the net rentals derived from said mortgaged premises into Court, were modified by subsequent orders of said Court entered in said foreclosure suits, whereby the Guaranty Trust Company was granted the right to retain from the net monthly rentals received

from said mortgaged premises an amount equivalent to twenty per cent thereof as compensation for the use of the furniture and fixtures contained in said apartment houses and belonging to said Guaranty Trust Company. And said orders for the payment of the net rentals derived from said mortgaged premises, as modified, have been, and now are, in full force and effect.

VII.

That pursuant to the orders of Court described in paragraph VI hereof, the said Guaranty Trust Company and its attorney, John W. Kaste, have served upon the petitioner and filed in said suits monthly statements showing the rents, issues, and profits derived from said premises and the disbursements made therefrom, since the 1st day of August, 1933, and up to and including the 11th day of May, 1934, and they have paid into the said Circuit Court of the State of Oregon for Multnomah County pursuant to said orders of Court the net rentals derived from said premises. But since the 11th day of May, 1934, the said Guaranty Trust Company and its attorney, John W. Kaste, have failed to serve or file the monthly reports showing the rentals received, disbursements made, and the net rentals accruing from said mortgaged premises, and have failed to pay said net rentals or any part thereof into said Circuit Court. That as petitioner is informed and believes, and alleges upon its information and belief, Guaranty Trust Company has paid

over to its attorney, John K. Kaste, the net rentals derived from said mortgaged premises which accrued between the 12th day of May, 1934, and the time when the control of said mortgaged premises was delivered to C. W. Twining, as Trustee in Bankruptcy herein, and that thereafter the said C. W. Twining, as such Trustee in Bankruptcy, paid said net rentals to said John W. Kaste until about the month of December, 1934, and that thereafter said net rentals have been retained by the said C. W. Twining, as Trustee in Bankruptcy. That petitioner has demanded of the said John W. Kaste the [13] payment of the said net rentals into the Circuit Court of the State of Oregon for Multnomah County pursuant to the orders of said Circuit Court herein described, but the said John W. Kaste has failed and refused to pay the same and has stated that he will continue to hold said net rentals until he is directed to pay the same by an order duly entered in this bankruptcy proceeding.

VIII.

That the said John W. Kaste is connected with said foreclosure suits and with this bankruptcy proceeding only in the capacity of attorney at law representing Guaranty Trust Company and National Investment Corporation; that the said John W. Kaste has no right to, interest in, or claim upon said funds, and that the same should be paid into the Circuit Court of the State of Oregon for Multnomah County, pursuant to the terms of said orders

of Court. That likewise, the net rentals derived from said mortgaged premises which are now in the possession of said C. W. Twining, as Trustee in Bankruptcy, constitute a part of the security for the mortgages described herein and were duly impounded by orders of Court entered in said foreclosure suits long prior to the time when this bankruptcy proceeding was instituted, and said funds should be paid into said Circuit Court.

Wherefore, petitioner prays that an order be entered herein authorizing and directing John W. Kaste and C. W. Twining, as Trustee in Bankruptcy herein, to pay to the Clerk of the Circuit Court for Multnomah County, State of Oregon, all of the net rentals derived from the mortgaged premises herein described, less twenty per cent thereof deducted for the use of the furniture situated in said premises and belonging to Guaranty Trust Company, and further directing that eighty per cent of the net income hereafter derived from said mortgaged premises by C. W. Twining, as Trustee in Bankruptcy, or any other Trustee in Bankruptcy herein, be paid into said Circuit Court; and for such other and further order as to the Court may seem meet and just.

PORTLAND TRUST AND
SAVINGS BANK

By C. W. DeGRAFF

Petitioner

Trustee

CRUM & DUSENBERY

Attorneys for Petitioner [14]

The detail relating to the mortgages relied upon by Portland Trust and Savings Bank is as follows: Under date of July 17th, 1928, Harry Mittleman and Helen R. Mittleman, as mortgagors, made, executed and delivered to Portland Trust and Savings Bank, Trustee, as mortgagee, mortgage covering Lots 29 and 35, Cedar Hill, Portland, Multnomah County, Oregon, being the Charmaine Apartments. This mortgage secured a loan of \$50,000.00 payable by 71 promissory notes, all bearing 7% interest, payable quarterly. Note No. 1 in the amount of \$500.00 was payable July 17, 1930; notes Nos. 2 to 32 in the amount of \$500.00 each were payable quarterly thereafter; notes Nos. 33 to 52 in the amount of \$750.00 each matured July 17, 1938; notes Nos. 53 to 71 for \$1,000.00 each matured July 17, 1938. The right of acceleration in case of default was provided for in the promissory notes and mortgages. Each of said mortgages contained the following provision:

“As a part of the security for the sums due and to become due the Mortgagee hereunder, the Mortgagor/s do/does hereby convey and assign all the rent, issues and profits of the mortgaged property above described from and after default by the Mortgagor/s in the payment of any sums due hereunder, or any other terms of this mortgage, and in any suit, action or proceeding to foreclose this mortgage, the court may, on motion of the party of the second part, or its assigns, and without notice, appoint

a receiver to collect the rents and profits issuing out of said premises during pendency of such foreclosure and until the right of redemption expires, and such rents and profits shall, after payment of all necessary expenses, be applied in payment, pro tanto, of the amounts due under this mortgage.’

The mortgage was duly and promptly recorded.

Under date of March 30, 1928, Harry Mittleman and Helen R. Mittleman, as mortgagors, made, executed and delivered to Portland Trust and Savings Bank, Trustee, as mortgagee, mortgage on Lots 30 and 34, Cedar Hill, Portland, Multnomah County, Oregon, being the Adele Manor Apartments. This mortgage secured a loan in the amount of \$52,500.00 represented by 79 notes, all bearing interest at 7%, payable quarterly. Notes Nos. 1 to 33, each in the amount of \$500.00. The first note matured March 28, 1930, and each succeeding note quarterly thereafter. Notes Nos. 33 to 53, inclusive, were for \$500.00 each, maturing March 28, 1938; Notes Nos. 54 to 79, inclusive, were for \$1,000.00 each, maturing March 28, 1938. The mortgage provided for acceleration in the event of default under any note and contained provisions identical with that [15] above quoted relating to the other mortgage between the same parties. The mortgage was duly and promptly recorded.

Both these properties thereafter were acquired by Guaranty Trust Company from said mortgagors.

Metropolitan Life Insurance Company filed a petition in the bankruptcy proceedings under date of October 24, 1934, after duly serving same, wherein it sought the leave, in a court other than the Bankruptcy Court, to foreclose the mortgage on the Mara Villa Apartments, and for an order requiring the Trustee in Bankruptcy to collect and segregate all rents and profits from said premises for application as therein prayed for, which petition, omitting formal parts thereof, is as follows:

[16]

[Title of Court and Cause.]

No. B-18784

PETITION

Comes now Metropolitan Life Insurance Company by Crum & Dusenbery, its attorneys, and respectfully petitions the Court for an order permitting petitioner to institute suit for the foreclosure of the mortgage hereinafter described and to join the debtor, Guaranty Trust Company, a corporation, National Investment Corporation, a corporation, and C. W. Twining, as Trustee herein, as parties defendant thereto; and for an order requiring said Trustee to collect and segregate in the name of Metropolitan Life Insurance Company all of the rents, issues, and profits from the mortgaged premises hereinafter described for application upon said mortgage indebtedness; and your petitioner respectfully shows to the Court and alleges:

I.

That petitioner, Metropolitan Life Insurance Company, is a corporation organized and existing under and by virtue of the laws of the State of New York;

That the debtor is a corporation organized and existing under and by virtue of the laws of the State of Oregon.

II.

That the petitioner is the owner and holder of a certain real estate mortgage executed by Irving A. Duncan and Ethel J. Duncan to Portland Trust and Savings Bank, and duly assigned to the petitioner herein, bearing date the 17th day of September, 1929, and duly recorded on the 17th day of September, 1929, in Book 38, on page 27 of the Mortgage Records of Multnomah County, Oregon. That said mortgage was given to secure a promissory note of even date therewith for the sum of \$25,000.00, and mortgaged as security for said indebtedness real property described as Lots numbered Eleven (11) and Twelve (12), in Block numbered One Hundred Seven (107), Irvington, an Addition within the corporate limits of the City of Portland, Multnomah County, Oregon.

III.

That said mortgage indebtedness was by the terms of said promissory [17] note payable \$750.00 on the first day of September, 1930, and a like payment on the first day of each and every March and Sep-

tember thereafter until March 1, 1940, when the balance of the principal of said note should become due and payable, with interest at the rate of six per cent per annum payable semi-annually.

IV.

That on the 18th day of July, 1930, the said Irving A. Duncan and Ethel J. Duncan, for a valuable consideration to them in hand paid by Guaranty Trust Company, executed and delivered to said Guaranty Trust Company their warranty deed dated on that date, and recorded on July 18th, 1930, in Book 86 at page 61 of the Photostat Deed Records of Multnomah County, Oregon, wherein and whereby they conveyed the premises described in said mortgage to the said Guaranty Trust Company subject to the mortgage above described, but the said Guaranty Trust Company did not assume or agree to pay said mortgage indebtedness; and ever since the date of said conveyance the said Guaranty Trust Company has been in possession of said mortgaged property and has been collecting the rents, issues, and profits thereof.

V.

That the said mortgagors and the said Guaranty Trust Company failed to make the payments provided for in said promissory note and mortgage but permitted the same to become delinquent. That the sum of \$2,644.03 has been paid upon the principal of said mortgage and the interest has been paid to

the 3rd day of May, 1933, but no other payments whatsoever have been made thereon and said mortgage is in a delinquent condition both as to principal and interest payments, the said principal being delinquent in the amount of \$4,105.97, and the said interest being delinquent since the 3rd day of May, 1933, in the amount of \$2,120.37 as of October 1st, 1934.

VI.

That according to the terms and provisions of said mortgage it was agreed that the mortgagors should pay all taxes and assessments levied and assessed against said premises before the same should become delinquent, but the said mortgagors and Guaranty Trust Company have failed to pay the taxes [18] levied and assessed against said premises for the years 1930, 1931, 1932, and 1933-34, and said delinquent taxes now amount to the sum of \$1,929.10, besides interest thereon.

VII.

That said mortgage, in addition to the property above described, mortgages as security for said debt the rents, issues and profits derived from said mortgaged premises and provides that upon default in the performance of any of the terms or conditions of said mortgage the mortgagee shall have the right to enter into and upon the premises and to take possession thereof and to collect the rents, issues and profits thereof and apply the same, less reasonable costs of collection, upon the indebtedness

thereby secured, and said mortgage further provides for the appointment of a receiver to collect and hold the same.

That said mortgaged property consists of an apartment house which is rented to various tenants and is yielding a large amount of revenue, the exact amount thereof being unknown to this petitioner. That said rentals as the same accumulate constitute a part of the security for the petitioner's debt, and said petitioner has a first lien thereon.

That for a long time last passed said rentals have been collected by the Guaranty Trust Company and not applied upon said mortgage indebtedness or the taxes levied and assessed against the mortgaged premises, but have been diverted to other uses.

VIII.

That the amount of said mortgage indebtedness with interest computed to October 1st, 1934, together with the delinquent taxes against said property, is the sum of \$26,405.34, not including interest upon delinquent taxes. That the apartment house situated on said premises has been permitted to deteriorate for want of proper repairs and maintenance, and by reason of the depression said property has depreciated in value so that the said mortgage and tax lien against said property equal or exceed the present value thereof, and this petitioner will in all probability suffer a loss unless the revenues of said property can be conserved and applied upon said mortgage indebtedness. [19]

IX.

That the debtor, Guaranty Trust Company, filed in this proceeding a plan of reorganization on or about the 11th day of June, 1934, and thereafter and on July 11th, 1934, filed its answer containing a second reorganization plan. That said second reorganization plan was submitted to various creditors of Guaranty Trust Company and was promptly rejected. That petitioner is advised and informed that Guaranty Trust Company has prepared and submitted to various of its creditors a third reorganization plan and that said plan has not been accepted by the various mortgage creditors of Guaranty Trust Company but that the same has been rejected by said mortgage creditors and that there is no reasonable probability that said third proposed plan will be accepted by said creditors.

Wherefore, petitioner prays that an order be entered herein authorizing Metropolitan Life Insurance Company to institute either in the Circuit Court of Multnomah County, Oregon, or in the District Court of the United States for the District of Oregon, a suit to foreclose the mortgage described in this petition, and to join as parties defendant to said suit Guaranty Trust Company, a corporation, National Investment Corporation, a corporation, and C. W. Twining, as Trustee in Bankruptcy herein, and requiring the Trustee herein to keep separate account of and to segregate in the name

of Metropolitan Life Insurance Company the rents, issues and profits derived from the mortgaged premises and property herein described to the end that the net proceeds therefrom may be paid into the Court in which such foreclosure suit is instituted and be applied upon the mortgage indebtedness herein described or the taxes levied and assessed against said premises, in accordance with the further order of this Court; and for such other and further order as to the Court may seem just and equitable.

CRUM & DUSENBERRY,
Attorneys for Petitioner, Metropolitan
Life Insurance Company. [20]

Said mortgage was executed and delivered by Irving A. Duncan and Ethel J. Duncan, mortgagors, to Portland Trust and Savings Bank, mortgagee, under date of September 17, 1929, and was thereafter duly assigned to Metropolitan Life Insurance Company, and covers Lots 11 and 12, Block 107, Irvington, Portland, Multnomah County, Oregon. Said mortgage was to secure repayment of a \$25,000.00 loan according to a promissory note of even date payable \$750.00 on the 1st day of September, 1930, and a like payment on the 1st day of March and September thereafter until March 1, 1940, when the balance of the principal of said note should become due and payable, with interest at the rate of 6% per annum, payable semi-annually. After the

legal description of the property, the mortgage contains the following provisions:

“To have and to hold, the granted premises,
* * * together with all of the rents, issues and profits of the mortgaged property.”

Said mortgage further provides:

“The rents, issues and profits of the mortgaged property, to and until maturity of the indebtedness secured hereby, either by lapse of time or by reason of default of the Mortgagors, shall belong to the Mortgagors, but upon such maturity of said indebtedness for any cause, the Mortgagee shall have the right forthwith to enter into and upon the mortgaged premises and take possession thereof, and to collect the rents, issues and profits thereof, and apply the same, less reasonable costs of collection, upon the indebtedness hereby secured, and the Mortgagee shall have the right to the appointment of a receiver to collect the rents, issues and profits of the mortgaged premises immediately upon default of the Mortgagors and without notice.”

The mortgage was duly and promptly recorded. Thereafter the property was deeded to Guaranty Trust Company. This apartment house was unfurnished.

Investors Syndicate on October 22, 1934, duly served and files its petition in the bankruptcy proceedings for leave to foreclose its mortgages, in a

court other than the Bankruptcy Court, and to have the income from the mortgaged premises segregated, and in support thereof duly served and filed a verified petition, which, omitting the formal parts, is as follows: [21]

[Title of Court and Cause.]

No. B-18784.

PETITION IN SUPPORT OF MOTION TO
BRING SUIT AND TO HAVE INCOME
SEGREGATED.

To the Honorable John McNary and James Alger
Fee, Judges of the Above Entitled Court:

The Investors Syndicate, in support of its motion herein for an order granting it permission to institute a suit or suits for the foreclosure of its mortgages as hereinafter set forth, in the District Court of the United States, for the District of Oregon, and in said suit or suits to make as party defendants thereto the above-named debtor, Guaranty Trust Company, a corporation, its affiliate, National Investment Corporation, and C. W. Twining, as Trustee herein, alleges as follows:

I.

That the Investors Syndicate is a corporation organized and now existing under and by virtue of the laws of Minnesota, with its principal place of business at Minneapolis in said state and is a citizen of the State of Minnesota; that the debtor, Guaranty

Trust Company, and its affiliate National Investment Corporation are corporations organized and existing under and by virtue of the laws of the State of Oregon, and the said Guaranty Trust Company, National Investment Corporation and C. W. Twinning are citizens of the State of Oregon. That the amount of the claim of the Investors Syndicate as hereinafter set forth in Paragraph VI, exclusive of interest and costs, exceeds the sum of \$3,000.00. That in the event of the institution of a suit on the mortgages of the Investors Syndicate it will be necessary to join as defendants other parties. That none of said necessary defendants are citizens of the State of Minnesota.

II.

That as more fully appears from the records and files herein an involuntary petition in bankruptcy was filed in this court against the above named Guaranty Trust Company on or about the 29th day of January, 1934; that on or about the 11th day of June, 1934, a petition was filed on behalf of the Guaranty Trust Company wherein it submitted a proposed plan for reorganization under the [22] Corporate Reorganization Act, approved June 7, 1934, Sections 77-A and 77-B, Amendment to the National Bankruptcy Act. That thereafter, and on or about the 11th day of July, 1934, there was filed on behalf of the Guaranty Trust Company a supplemental answer herein setting out a new plan of reorganization under the said Corporate Reorganization Act and providing therein that every first

mortgage lien holder shall waive all accrued interest and accept new mortgages and stock or debentures for their mortgage indebtedness, as more fully set out in said answer. That said plan has not been approved or accepted by the Investors Syndicate and has specially been refused by the Investors Syndicate. That a further plan has been submitted to the Investors Syndicate providing for the waiver by the Investors Syndicate of all accrued interest and the giving of new mortgages for a period of ten years with interest at five per cent; that the Investors Syndicate has refused said plan. That on or about the 10th day of September, 1934, C. W. Twining was appointed as Trustee and is now Trustee in the above pending matter under the Corporate Reorganization Act.

III.

That as more fully appears from the Mortgage Records of Multnomah County, Oregon, the Investors Syndicate holds first mortgages upon certain property as hereinafter listed in Paragraph VI securing indebtedness due unto the Investors Syndicate as shown and on which payments are delinquent as hereinafter set forth; that the title to the real property is vested in the National Investment Corporation and was acquired by the National Investment Corporation prior to 1930 subject to the mortgages of the Investors Syndicate; that said mortgages, together with promissory notes evidencing the indebtedness are now owned and held by the Investors Syndicate.

IV.

That prior to the institution of the above proceeding in this Court and by reason of defaults and continued defaults on the payments on the mortgages, and each of them, occurring since the acquisition of the title thereto by the National Investment Corporation, foreclosure proceedings have, on said mortgages, been considered by the Investors Syndicate and on numerous occasions representatives of the National Investment Corporation and the Investors Syndicate have attempted to formulate a plan affecting the payments [23] on said mortgages agreeable to all parties concerned and under which the National Investment Corporation would be in position to carry the mortgages without defaults continuing thereunder.

That at the earnest solicitation of the National Investment Corporation and of the officers of the Guaranty Trust Company that foreclosure proceedings be withheld, and with their assurance that they would and could comply with certain conditions and modifications hereinafter referred to, the Investors Syndicate has during the past three years withheld foreclosure proceedings and did on three different occasions grant unto the National Investment Corporation certain temporary modifications of payments as to each of the mortgages of the Investors Syndicate upon and subject to the condition that the modification agreement be fully complied with.

That the first of said agreements was made November 23, 1931, at which time there existed a de-

linquency of approximately \$4366.25 on account of payments then due on said mortgages and unpaid taxes for 1929 aggregating the sum of \$1436.77 and all of the 1930 taxes. That said agreement provided that there be paid forthwith one monthly installment on each of said mortgages, payment of which was made as of October 10th, 1931 and receipt of which was acknowledged in said agreement, and beginning with the month of November, 1931 to and inclusive of April, 1932 there should be paid monthly the interest on each of said mortgages and in addition that the delinquent 1929 taxes would be paid on or before December 15, 1931; that the National Investment Corporation made the monthly payments of interest computed in the amount of \$521.08 monthly but failed to pay the delinquent taxes for 1929 in accordance with the said agreement and have at all times failed to make said payments of taxes and the Investors Syndicate did pay said taxes July 20, 1933, together with accrued interest.

That subsequent to the April, 1932 payment of interest and prior to August, 1932 no payments were made on account of said mortgage indebtedness or interest; that on or about August 17, 1932 and at the earnest solicitation of the National Investment Corporation but without any consideration unto the Investors Syndicate, the modification as to monthly payments above described was extended to July 1, 1933, subject to and on the condition that [24] the interest payments be made monthly, that the 1930

taxes on the respective properties be paid on or before November 5, 1932 and that the unpaid 1929 taxes be paid forthwith, and that the insurance premium then due on said fire policies on said properties in the amount of \$1014.20 be paid on or before October 17, 1932 and in addition to pay all insurance premiums as and when they become due. That the National Investment Corporation failed to comply with the conditions of said modification in that the monthly interest payments for the month of April, 1933 and thereafter were not paid; that it did not and has been paid any of said taxes nor has it paid said insurance premium except the sum of \$328.78 thereof; that in addition to its failure to pay insurance premium above referred to, it permitted to become delinquent and has at all times failed to pay a further insurance premium on Loan 6517 in the amount of \$612.00 and Loans No. 6972 and No. 7074 in the sum of \$40.60 each, hereinafter described, and the Investors Syndicate has paid said insurance premiums as hereinafter set out. That the Investors Syndicate has paid the 1930 taxes as hereinafter set out.

That subsequent to the interest payment on account of March, 1933 no payments were made on said mortgage indebtedness until December, 1933; that on or about November 29, 1933 and at the earnest solicitation of the National Investment Corporation a further modification was granted as to said mortgage payments and provided that beginning with the 12th day of November, 1933 to and

inclusive of March, 1935, all of the net income from the respective mortgaged properties would be paid unto the Investors Syndicate monthly on account of said mortgages and in an amount of not less than \$540.00 monthly, which said sum was to be allocated pro-ratably to each indebtedness secured by each of said mortgages; that the November minimum payment of \$540.00 was to be paid in quarterly monthly amounts beginning with the December payment; that said modification and forbearance was on the express condition that the payments and provisions thereof, and each and every requirement, covenant and condition as contained in each of said mortgages, except as modified, be fully performed and complied with and that current taxes except as modified, be fully performed and complied with and that [25] current taxes be paid as and when due. That the National Investment Corporation failed to comply with the conditions of said modification agreement in that they failed to make the minimum payments of \$675.00 due January 12th, 1934, except the sum of \$370.66 and that no other payments have been made pursuant to said modification.

That subsequent to said default the above matter in bankruptcy was filed in this court; that the National Investment Corporation by its officer and representative gave assurance to the representative of the Investors Syndicate that all of the income from the respective mortgaged properties of the Investors Syndicate was being held to the credit of the Inves-

tors Syndicate and that in his opinion the bankruptcy matter then pending would be satisfactorily terminated within the very near future; that on the insistence of representatives of the Investors Syndicate that something be done toward paying unto the Investors Syndicate the net income from the properties covered by the Investors Syndicate mortgages pending the bankruptcy matter there was proposed in April, 1934, by representatives of the National Investment Corporation that there would be turned over to the Investors Syndicate forthwith certain moneys to the credit of the Investors Syndicate in the approximate amount of \$1900.00 and thereafter the net income from the mortgaged properties until a proposed refinancing and liquidating of said mortgages under the R. F. C. to be completed prior to January 1, 1935, said arrangement to be subject to the approval of this court. That the National Investment Corporation was unable and failed to make said payment of \$1900.00 or any part thereof, except the sum of \$604.79, which said sum is now being held by the Northwest Mortgage Company of Portland, Oregon, representative of the Investors Syndicate. That said sum is not shown as a credit upon said mortgages in the amounts hereinafter set forth. That said amount will be duly accounted for and credited on said mortgages by the Investors Syndicate; that the Investors Syndicate is entitled to receive said sum and apply it on said mortgages.

V.

That the Investors Syndicate has granted unto the National Investment Corporation extreme

leniency and consideration in connection with the delinquencies [26] occurring on said mortgages and in so doing the principal indebtedness has increased during the past three years until at the present time the value of said properties is approximately equivalent to the indebtedness now against said properties and said indebtedness is only slightly reduced from the original amount thereof although seven and eight years have elapsed since the making of said mortgages. That the Investors Syndicate is limited in realizing upon its indebtedness to the security itself in that there is no personal liability that can be realized upon in connection with the said indebtedness.

That the annual net income from said properties under the operation of the National Investment Corporation as disclosed by Exhibit "J" filed by the Guaranty Trust Company in this matter, computed on the basis of income and expenses from January 1, 1934 to June 1, 1934, is shown to be the sum of \$6645.32 and exceeds the amount required to pay the minimum monthly payments on account of interest as fixed in the respective modification agreements.

That the monthly payments on the mortgages hereinafter described, and each of them, by reason of the failure of the National Investment Corporation to comply with and perform the conditions of the modification agreements hereinabove referred to, are in default in the aggregate sum of \$4366.25 accruing prior to November 23, 1931 modification agreement and all subsequent monthly payments are

provided for in said mortgages, less a credit on said monthly payments in the amount paid under said modification agreements and are further in default for want of payment of fire insurance premiums and taxes as herein set out.

VI.

That the property securing plaintiff's mortgages, and each of them, has no value over and above the mortgage indebtedness now due the Investors Syndicate and unpaid taxes accrued against said premises; that the said properties, and each of them, are being neglected and are in need of repair and a considerable expenditure for renovating and placing in a condition that will bring the greatest possible income therefrom. That a failure or neglect to make such repairs will and is resulting in increasing deterioration of said properties. That interest is accumulating on said indebtedness in the approximate amount of \$20.00 daily. That the Investors Syndicate will suffer a [27] material loss if its rights now existing to foreclose said mortgages and to receive the income from said property under the provisions of said mortgages be further delayed or postponed. That for the purpose of informing the Court relative to the present value of said mortgaged property the Investors Syndicate has obtained an appraisalment by Mr. B. L. Metzger, a realtor of Portland, Oregon, who is well experienced in the management and operation of apartment buildings and the value thereof. That attached

hereto marked and referred to as Exhibit "A" is the affidavit of Mr. Metzger as to the valuation of said properties.

That the following is a description of the mortgages included in the motion of the Investors Syndicate, together with a statement of the present status thereof and balances during the past three years showing an increase thereof.

Loan #5388 (Nordell Apartments) Lot 14, Block 11, King's	
Second Addition, Note and Mortgage, original amount.....	\$ 26,000.00
Dated March 10, 1926, with interest at 7% per annum, payable \$260 monthly on the 10th day of each month beginning August 10, 1926, recorded March 11, 1926, Book 1128, page 44, Mortgage Records for Multnomah County.	
Chattel Mortgage as additional security covering oil burner and refrigeration equipment situate in apartment building, recorded December 1, 1931, in Book 72, page 395, Chattel Mortgage Records.	
Status of this indebtedness:	
July 1, 1931 Balance Principal and Interest.....	\$ 19,874.33
Insurance paid by Investors Syndicate and charged to mortgage 7/1/32 and 8/3/32.....	\$478.40
January 1, 1933 Balance Principal and Interest.....	\$ 20,360.52
Charged to said mortgage since 1/1/33 1930 taxes paid 7/20/33.....	\$650.89
July 1, 1934 Balance Principal and Interest.....	\$ 22,317.74
Interest accrued 7/1/34 to 10/1/34.....	390.56
Unpaid taxes now accrued 1931, 1932 and 1934.....	1,624.95
	<hr/>
October 1, 1934 indebtedness.....	\$ 24,333.25
Present valuation (See Affidavit, Exhibit "A").....	\$ 27,000.00
Loan #5700 (Resthaven Apartments) Lot 10, Block 2, Goldsmith's Addition. Note and Mortgage, Original amount.....	
	\$ 28,500.00
Dated May 15, 1926, with interest at 7% per annum, payable \$285 monthly on the 15th day of each month, beginning October 15, 1926, recorded May 25, 1926, Book 1143, page 223, Mortgage Records for Multnomah County.	

Chattel Mortgage as additional security covering oil burner and refrigeration equipment situate in apartment building, recorded December 1, 1931, in Book 72, page 389, Chattel Mortgage Records.

Status of this indebtedness:

July 1, 1931 Balance Principal and Interest.....	\$ 21,818.77
Insurance paid by Investors Syndicate and charged to mortgage 11/30/32.....	\$585.80
January 1, 1933, Balance Principal and Interest.....	\$ 22,363.16
Charged to said mortgage since 1/1/33 1930 taxes paid 7/20/33.....	\$647.90
July 1, 1934 Balance Principal and Interest.....	\$ 24,602.39
Interest accrued from 7/1/34 to 10/1/34.....	430.54
Unpaid taxes now accrued 1931, 1932 and 1934.....	1,606.05
	<hr/>
October 1, 1934 indebtedness.....	\$ 26,638.98
Present Valuation (See Affidavit, Exhibit "A").....	\$ 27,750.00

Loan #6517 (Chapman Court Apartments) Lots 1, 2, 6, 7 and 10, Block 22, Goldsmith's Addition, Note and Mortgage, original Amount..... \$ 50,000.00
 Dated November 20, 1926, with interest at 7% per annum, payable \$500 monthly, on the 20th day of each month, beginning May 20, 1927, recorded December 9, 1926, Book 1201, page 423, Mortgage Records of Multnomah County.
 Chattel Mortgage as additional security covering heating and refrigeration equipment situate in apartment building, recorded December 1, 1931, in Book 72, page 413, Chattel Mortgage Records.

Status of this indebtedness:

July 1, 1931 Balance Principal and Interest.....	\$ 40,706.29
January 1, 1933 Balance Principal and Int.....	40,286.52
Charges to said mortgage since 1/1/33 Insurance and 1929 and 1930 taxes paid 3/31/33 and 7/20/33 respectively.....	\$1936.21
July 1, 1934 Balance Principal and Interest.....	\$ 46,260.65
Interest accrued 7/1/34 to 10/1/34.....	809.56
Unpaid taxes now accrued 1931, 1932 and 1934.....	2,858.69
	<hr/>
October 1, 1934 indebtedness.....	\$ 49,928.90
Present Valuation (See Affidavit, Exhibit "A").....	46,850.00

Loan #6972 (Duplex Apartments) Lot 14, Block 22, Goldsmith's Addition, Note and Mortgage, original amount.....\$ 5,000.00
 Dated March 7, 1927, with interest at 7% per annum, payable \$50 monthly, on the 7th day of each month, beginning July 7, 1927, recorded March 8, 1927, Book 1221, page 339, Mortgage Records of Multnomah County.
 Chattel Mortgage as additional security covering heating and refrigeration equipment, recorded December 1, 1931, Book 72, page 401, Chattel Mortgage Records.

Status of this indebtedness:

July 1, 1931 Balance Principal and Interest.....	\$ 3,949.10
January 1, 1933 Balance Principal and Interest.....	3,953.80
Charged to said mortgage since 1/1/33 1929 and 1930 taxes and insurance paid 7/20/33 and 6/30/33 respectively	\$331.85
July 1, 1934 Balance Principal and Interest.....	\$ 4,583.60
Interest accrued from 7/1/34 to 10/1/34.....	\$ 80.21
Unpaid taxes now accrued 1931, 1932 and 1934.....	354.14

October 1, 1934 indebtedness.....	\$ 5,017.95
Present Valuation (See Affidavit, Exhibit "A").....	4,750.00

Loan #7074 (Duplex Apartments) Lot 11, Block 22, Goldsmith's Addition, Note and Mortgage Original amount.....\$ 5,000.00
 Dated March 22, 1927, with interest at 7% per annum, payable \$50.00 monthly on the 22nd day of each month, beginning July 22, 1927, recorded March 24, 1927, in Book 1234, page 146, Mortgage Records for Multnomah County.
 Chattel Mortgage as additional security covering oil burner and refrigeration equipment, recorded December 1, 1931 in Book 72, page 407, Chattel Mortgage Records.

Status of this indebtedness:

July 1, 1931 Balance Principal and Interest.....	\$ 3,949.10
January 1, 1933 Balance Principal and Interest.....	3,953.80
Charged to said mortgage since 1/1/33 Insurance, 1929 and 1930 taxes paid 6/30/33 and 7/20/33 respectively	\$331.85
July 1, 1934 Balance Principal and Interest.....	\$ 4,586.21
Interest accrued from 7/1/34 to 10/1/34.....	\$ 80.26
Unpaid taxes now accrued 1931, 1932 and 1934.....	354.14

October 1, 1934 Balance.....	\$ 5,020.61
Present Valuation (See Affidavit, Exhibit "A").....	4,750.00

Recapitulation:

Total Amount Due Investors Syndicate as of July 1, 1934	\$102,350.59
Total Amount Accrued Interest from 7/1/34 to 10/1/34	1,791.22
Total Amount Unpaid Taxes Due and Payable to and inclusive of 1934	6,797.97
<hr/>	
Total Indebtedness Investors Syndicate Mortgages October 1, 1934	\$110,939.78
Total Present Valuation as Listed in Exhibit "A"	111,100.00

VII.

That in support of that portion of the Investors Syndicate motion for an order directing the Trustee herein to segregate all of the net income received by him in the operation of said apartment houses to the account of the Investors Syndicate, pending the further order of this court, the Investors Syndicate reiterates the preceding allegations herein and further alleges that each of the mortgages hereinabove described include therein as a part of the security the "issues, rents and profits therefrom" as to each of the properties described and contain the further provisions that,

"The said Mortgagee, its successors, legal representatives or assigns, shall be at liberty, immediately after any default in the payment of the principal sum mentioned in the said note or of any installment thereof, or of the interest which shall accrue thereon, or of any part of either at the respective times therein specified for the payment thereof, upon a complaint filed or any other proper legal proceeding being commenced for the foreclosure of this mortgage, to

apply for, and the said Mortgagee shall be entitled to as a matter of right, without consideration of the value of the mortgaged premises as security for the amounts due the Mortgagee, or the solvency of any person or persons bound for the payment of such amounts, to the appointment by any competent Court, without notice to any owner, lessee or other party, of a Receiver to take possession of the premises, and/or to collect the rents, issues and profits of the said premises with the power to lease the said premises, or such part thereof as may not then be under lease, and with such other powers as may be deemed necessary, who, after deduction of all proper charges and expenses attending the execution of the said trust as received, shall apply the residue of the said rents and profits to the payment and satisfaction of the amount remaining secured hereby or to any deficiency which may exist after applying the proceeds of the sale of the said premises to the payment of the amount due, including interest and the costs and a reasonable attorney's fee for the foreclosure and sale".

VIII.

That in addition to the foregoing there was given by the mortgagor [31] unto the mortgagee as a further consideration for the mortgage loans and as additional security for the indebtedness described in the mortgages hereinabove referred to as Loans

Numbered 5388, 5700 and 6517 a separate assignment of rents as to each of said properties. That said assignments were respectively recorded as follows:

<u>Loan No</u>	<u>Description</u>	<u>Dated</u>	<u>Recorded</u>	<u>Mortgage Records Multnomah County, Ore. Book & Page</u>	
5388	Lot 14, Block 11, King's Second Addition to City of Portland	6/30/26	7/ 2/26	1161	406
5700	Lot 10, Block 2, Gold- smith's Addition to City of Portland	6/29/26	6/30/26	1165	13
6517	Lots 1, 2, 6, 7 and 10, Block 22, Goldsmith's Addition to City of Portland	11/20/26	12/ 9/26	1184	328

That attached hereto as Investors Syndicate Exhibit "B" is a copy of the Assignment of Rents given as to the property covered by Loan No. 6517 and a copy as to form of the assignment of rents in loans numbered 5388 and 5700. That the assignment of rents as to Loans No. 5388 and 5700 were given to the then named mortgagee, Western Bond and Mortgage Company; that the Western Bond and Mortgage Company did, by an assignment in writing, for a valuable consideration, duly assign the said mortgages and indebtedness thereby secured unto the Investors Syndicate, which assignments were duly recorded in the Records of Mortgages for Multnomah County, Oregon, as follows:

Mortgage described under Loan No. 5388, Assignment Recorded June 9, 1926, Book 1154, page 207.

Mortgage described under Loan No. 5700, Assignment Recorded November 6, 1926, Book 1184, page 177.

That the Investors Syndicate is the assignee of the Western Bond and Mortgage Company as to said mortgages and indebtedness thereby secured.

That the Investors Syndicate under said assignments is entitled to have rents, profits and income from said mortgaged properties applied to the mortgage indebtedness under the default now existing and pending the satisfaction of the Investors Syndicate mortgages by foreclosure or otherwise. That the Investors Syndicate believes it to be to the best interests of all parties [32] concerned if the said rents, issues and profits can be collected and held to the credit of the Investors Syndicate by the Trustee herein, C. W. Twining. That in the event said rents, issues and profits are not segregated and retained for application on the mortgage indebtedness the Investors Syndicate will suffer further and additional loss on its mortgages hereinabove described.

Wherefore, the Investors Syndicate prays of this court that it may be allowed to institute forthwith a suit or suits in the District Court of the United States, for the District of Oregon, for the foreclosure of the real and chattel mortgages as hereinabove described for the indebtedness due it on said respective mortgages and in said suit to make as party defendants thereto Guaranty Trust Company, a corporation, its affiliate, National Investment Cor-

poration, and C. W. Twining, as Trustee herein, to the end that any lien or interest they may have in and to said mortgaged property be fully determined and foreclosed in said suits.

The Investors Syndicate further prays that the Court enter an order herein directing the Trustee in this matter to collect and segregate in the name of the Investors Syndicate and for application upon the mortgage indebtedness due the Investors Syndicate, all of the rents, issues and profits now in the possession of, or coming to the Trustee herein, or which he may be entitled to receive accruing from the properties covered by the mortgages of the Investors Syndicate, pending the further order of this court.

(signed) STEPHEN H. BOYLES,

Attorney for Investors Syndicate. [33]

Attached to said petition and dated October 19, 1934, marked Exhibit "A", as a part thereof, is an affidavit of B. L. Metzger, an expert on appraisal of real property and particularly apartment buildings, stating the market value of the properties covered by each of the mortgages to Investors Syndicate as being less than the outstanding indebtedness thereon, and further stating that the upkeep and maintenance of said apartment buildings has been badly neglected, that they are in bad state of repair and are in need of immediate repairs.

Likewise attached to said petition, designated Exhibit "B" and made a part thereof, is a copy of assignment of rents covering the property referred to as Chapman Courts, dated November 20, 1926, but in form containing the same provisions as the assignment of rents held by Investors Syndicate as additional security on the apartments known as Rest Haven, dated June 29, 1926, and the Nordell, dated June 30, 1926. All of said assignments of rents contained the following provisions:

"Now, therefore, in consideration of the premises and in consideration of One Dollar (\$1.00) to the undersigned in hand paid by the Investors Syndicate, the undersigned does assign and set over to the Investors Syndicate, all its rights, title and interest in and to the rents and profits and income of whatsoever nature, due or to become due, from the property hereinabove described, or any buildings or building thereon situated, to have and to hold, unto the said Investors Syndicate, its successors and assigns, so long as the said mortgage indebtedness hereinabove described and any interest accruing thereon shall remain unpaid, it being understood, however, that so long as said mortgage shall be in good standing, and so long as each and every covenant of said mortgage shall have been complied with, the said Mortgagor, the undersigned, shall have the control and management of said property and shall be allowed to collect and disburse any and all rents and

profits accruing from said property, without accounting to the Mortgagee, it being intended by the parties that this assignment shall automatically become operative upon any default or delinquency on the part of the Mortgagor under the terms and conditions of said mortgage, and that upon any such default or delinquency, the said mortgagee shall be and hereby is, authorized and empowered without notice to exercise the rights and privileges in this assignment contained, and to apply any and all sums so collected toward the payment of said mortgage indebtedness, interest and costs and expenses of collection so long as any of such sums shall remain due and unpaid. The Assignee herein is hereby authorized and empowered, in the event of any delinquency as above set out, to place a manager of its own selection in charge of said property to collect all rents and pay out of the proceeds of said rents a reasonable compensation to said manager and to continue said manager in possession and control so long as said mortgage shall be in default." [34]

The mortgage on the Nordell Apartments was made, executed and delivered by J. C. Meyers, Inc., to Western Bond & Mortgage Company, under date of March 10, 1926, to secure a loan for \$26,000.00, with interest at 7% payable \$260.00 per month beginning August 10, 1926. The mortgage covers Lot 14, Block 11, Kings Second Addition to Portland, Multnomah County, Oregon, with provision

for acceleration in case of default. The mortgage contains the following clauses:

“The mortgagor, in order to secure the payment to the mortgagee of a debt of \$26,000.00 and interest and all other sums as provided herein, and the performance of all covenants herein contained, does hereby grant and convey to the mortgagee that certain real property, situate in the County of Multnomah, State of Oregon and described as follows, to wit * * * together with the issues, rents and profits therefrom.

“The Mortgagor herein does hereby authorize and empower the said Mortgagee, its successors and assigns, and their agents and attorneys, at their election, without notice to the Mortgagor, to take and maintain full control of said premises and receive all rents and income therefrom and issue receipts therefor, and out of the amount or amounts received therefrom to retain or pay the customary charges for managing said property, pay the necessary repairs as determined by said Mortgagee, its successors and assigns, agents and attorneys, pay the taxes and assessments repaid thereon, pay the premium on insurance policies now thereon or any renewals thereof, and pay the Mortgagee and its successors in interest any amounts due on this mortgage, and to pay the balance of any amount so collected to the then owner of the property, and in so doing those exercising this right shall

be liable only for the amount or amounts collected by them, less the necessary cost of making collections; however, such rights of collection of rents or income and to take and maintain control of said property under this authorization shall not apply so long as the payments and covenants required by this mortgage are not in default, and such control of said property under this authorization shall cease and be of no further force and effect.

* * * * *

“And the said Mortgagee, its successors, legal representatives or assigns, shall be at liberty, immediately after any default in the payment of the principal sum mentioned in said note or of any settlement thereof, or of the interest which shall accrue thereon or any part of either at the respective times therein specified for the payment thereof, upon a complaint filed or any other proper legal proceeding being commenced for the foreclosure of this mortgage, to apply for, and the said mortgagee shall be entitled as a matter of right without consideration of the value of the mortgaged premises as security for the amounts due the Mortgagee, or the solvency of any person or persons bound for the payment of such amounts to the appointment by any competent court, without notice to any owner, lessee, or other party of a receiver to take possession of the premises and/or to col-

lect the rents, issues and profits of the said premises with the power to lease the said premises, or such part thereof as may not then be under lease, and with such other powers as may be deemed necessary, who after [35] deductions of all proper charges and expenses attending the execution of the said trust as received, shall apply the residue of the said rents and profits to the payment and satisfaction of the amount remaining secured hereby, or to any deficiency which may exist after applying the proceeds of the sale of the said premises to the payment of the amount due, including interest and the costs and a reasonable attorney's fee for the foreclosure and sale."

An assignment of rents was executed and delivered by said mortgagor to said mortgagee, as hereinbefore more particularly set forth dated June 30, 1926. Said mortgage was thereafter assigned to Investors Syndicate, to-wit, on April 6, 1936, and then duly recorded.

The mortgage on Rest Haven Apartments covers Lot 10, Block 2, Goldsmith's Addition, Portland, Multnomah County, Oregon, and secures the payment of a promissory note in the principal amount of \$28,500.00 with interest at the rate of 7% per annum, payable in monthly installments of \$285.00 on the 15th day of each month beginning October 15, 1926, with acceleration clause, from the same mortgagor to the same mortgagee, and including

the same provision as heretofore quoted with reference to the Nordell Apartments and likewise, with assignment of rents as before described, dated June 29th, 1926, which mortgage was duly assigned to said petitioner and which assignment was duly recorded on May 28, 1926.

The mortgage on Chapman Court Apartments covers Lot 1, 2, 6, 7 and 10, Block 22, Goldsmith's Addition, recorded in Book 1201, page 123, from J. C. Meyers Inc., as mortgagor, to Investors Syndicate, as mortgagee. This mortgage secured a note in the amount of \$50,000.00 with interest at the rate of 7%, payable \$500.00 per month beginning May 20, 1927, with acceleration clause, and including the same provisions as hereinbefore quoted with reference to the Nordell Apartments, and likewise with an assignment of rents as heretofore described, dated November 20, 1926.

Said petition of Investors Syndicate also covered mortgages on duplexes adjoining Chapman Court. One mortgage was given to J. C. Meyers, Inc., mortgagor, to Investors Syndicate, mortgagee, covering Lot 14, Block 22, Goldsmith's Addition, and secured a promissory note in the amount of \$5,000.00 with interest at the rate of 7% per annum, payable \$50.00 per month beginning July 7, 1927, with acceleration clauses and containing identical clauses hereinbefore quoted with reference to Nordell Apartments, including assignment of rents.

The other mortgage was between the same parties covering Lot Eleven, [36] Block 22, Goldsmith's

Addition, and secured a promissory note in the amount of \$5,000.00 with interest at the rate of 7% per annum, payable \$50.00 per month beginning July 7, 1927, with acceleration clause, and likewise containing the identical clauses quoted with reference to Nordell Apartments, including also assignment of rents.

All of these mortgages were duly and promptly recorded.

All the foregoing petitions were referred to Roy F. Shields, Special Master, to determine all questions of fact and the law involved therein and to report the same to the court.

On November 8, 1934, a hearing was had before said Special Master on the said petitions of Investors Syndicate and Metropolitan Life Insurance Company. At this hearing, the Petitioning and Intervening Creditors and the debtor were represented by counsel, and it was stipulated and agreed that all of the allegations of said petitions were true excepting the allegations as to value of the mortgaged properties contained in the petition of Investors Syndicate, and evidence was received upon that issue. On March 29, 1935, a further hearing was had before said Special Master on the said petition of Portland Trust and Savings Bank. At this hearing Petitioning and Intervening Creditors and the debtor were represented by counsel and it was stipulated and agreed that all of the allegations of the petition of Portland Trust and Sav-

ings Bank were true, and no evidence was taken thereon.

On April 23, 1935, Roy F. Shields as such Special Master filed in said bankruptcy proceedings a report (not the report reviewed by the court which resulted in the order appealed from) in which he found that the allegations of the petitions of Investors Syndicate, Metropolitan Life Insurance Company and Portland Trust and Savings Bank, Trustee, were true and recommended that Investors Syndicate and Metropolitan Life Insurance Company be permitted to foreclose their mortgages and that John W. Kaste be required to pay to the Trustee in Bankruptcy the rentals derived from the Adele Manor and Charmaine Apartments which were in his possession, and that the net proceeds of rentals received from each mortgaged property, after deducting a fair proportion of the expense of handling the same in said proceedings, be paid to the mortgagee [37] holding the mortgage on such property and applied toward the payment of the mortgage debt. No order was made confirming said report, but thereafter orders were made permitting Investors Syndicate and Metropolitan Life Insurance Company to foreclose their mortgages and requiring Kaste to pay over said rentals to the Trustee in Bankruptcy, as elsewhere shown herein.

On May 21, 1935, Metropolitan Life Insurance Company filed in the bankruptcy proceedings, motion for leave to foreclose its said mortgage, in a

court other than the bankruptcy court, and on June 13, 1935, the court entered an order granting said company leave to proceed with the foreclosure of its mortgage, on condition, however, that no final decree should be entered in said foreclosure proceedings until permission should be granted by further order of the Bankruptcy Court.

On June 3, 1935, Investors Syndicate filed in said bankruptcy proceedings, motion for leave to foreclose its said mortgages, in a court other than the bankruptcy court, and on June 11, 1935, the court made an order granting to Investors Syndicate the right to proceed with the foreclosure of its said mortgages, with the same conditions above recited.

On June 5, 1935, Portland Trust and Savings Bank, Trustee, filed in said bankruptcy proceedings, motion and affidavit for order permitting it to proceed with the suits pending in the State Court for the foreclosure of its said mortgages.

On the 9th day of October, 1935, the Court made an order reciting that reorganization of Guaranty Trust Company and National Investment Company could not be effected under the provisions of Section 77B of the Bankruptcy Act, and that Guaranty Trust Company is now and was insolvent on and for some time prior to November 1, 1933, and that the assets of said corporation and National Investment Company should be liquidated by a Trustee, and appointing H. E. Eakin as such trustee, with authority to take possession of all of the assets

and property of said corporations and to manage, operate and control the same, and further providing:

“And, it is further ordered that said Trustee shall keep accounts of all moneys coming into his possession from each of the several properties of the debtors, and that [38] the Trustee’s accounts shall be so kept that all income and revenues received and expenses incurred in the operation of all of said properties can at all times be ascertained and segregated.”

On the 20th day of November, 1935, the Court made an order entitled “Order of Reference as to Ownership of Rents”, which is as follows:

“[Title of Court and Cause.]

ORDER OF REFERENCE AS TO
OWNERSHIP OF RENTS

“Whereas Investors Syndicate, Portland Trust and Savings Bank, Trustee, and Metropolitan Life Insurance Company, and other mortgagees, have asserted claim to the moneys now in the hands of the trustee of the above entitled bankrupt estates representing rents collected from properties covered by mortgages now in the hands of the trustee, and

“Whereas H. E. Eakin, trustee of the above entitled bankrupt estate, claims to be the owner of the said funds and that the same are a part of the trust estate available for the pay-

ment of expenses of administration and for distribution among creditors, and

“Whereas the said H. E. Eakin, trustee of the above entitled estate, was not a party to any of the proceedings heretofore had before the Special Master, and

“Whereas it is necessary that these issues be determined, it is

“Ordered that the aforesaid issues be and the same hereby are referred to Roy F. Shields, Esq., as Special Master, to take testimony thereon and hear legal arguments thereon and to make to this court his findings of fact and his recommendations of law thereon, and said Special Master shall consider the testimony taken in prior hearing as to claims of Investors Syndicate, Portland Trust & Savings Bank Trustee and Metropolitan Life Insurance Company and as to such parties this reference shall be considered a rehearing before such Special Master.

Dated November 20, 1935.

(s) JOHN H. McNARY

Judge”

In addition to the foreclosure proceedings hereinbefore described as to Portland Trust and Savings Bank, foreclosure proceedings were, subsequent [39] to orders granting leave to foreclose, as hereinbefore set forth, instituted by Metropolitan Life Insurance Company in the Circuit Court of Multno-

mah County, Oregon, and by Investors Syndicate in the District Court of the United States for the District of Oregon, covering their mortgages herein described. Such foreclosure suits were pending at the time of the hearing on November 20, 1935. None of the appellants at any time had possession of the real property covered by any of the mortgages nor were any of the mortgages of the appellants herein foreclosed or liquidated in the bankruptcy tribunal, nor a receiver appointed. No applications or petitions relating to the questions involved in this appeal were addressed by any of the appellants to the Bankruptcy Court or to the Trustee in Bankruptcy, other than as specifically mentioned in this agreed statement.

It was stipulated at the hearing that the facts set forth as allegations in the petitions of each of the mortgagees, appellants herein, are true, also that the condition of all the mortgages remained unchanged as of the date of the hearing, with the exception of added delinquent installments and added taxes, no payments having been made on any of said mortgages in the interim.

Statements of amounts due and unpaid as of January 1, 1936, on mortgages to Investors Syndicate, disclosed the total indebtedness as of January 1, 1936, exclusive of costs and attorney fees in the respective suits, and unpaid taxes in the following amounts:

	Total Indebtedness	Unpaid Taxes
Nordell Apartments	\$24,638.55	\$2098.75
Resthaven Apartments	26,856.11	2070.01
Chapman Courts	50,603.59	3682.79
Duplex (1st)	5,016.87	456.97
Duplex (2nd)	5,016.87	456.97

Investors Syndicate was limited entirely to its security, as the mortgagor corporation was dissolved in 1927 and the individual signers of the note were outside the state.

The amounts due on the mortgages of Portland Trust and Savings Bank as of the approximate date of the hearing were as follows: [40]

Charmaine Apartment statement amount owing on mortgage:

Principal balance	\$47,000.00
Interest 7% from Oct. 11, 1932 to Nov. 20, 1935	10,198.25
Insurance advanced July 17, 1935	422.00
Interest to Nov. 20, 1935	12.12
Abstract continuation	32.00
Photo. cop.	19.77
	<hr/>
Total	\$57,684.14

Taxes unpaid

1930 taxes	\$1006.96
1931 taxes	924.76
1932 taxes	946.69
1933-34 taxes	935.50
1935 taxes	907.25

Statement of amount due on Adele Manor mortgage:

Principal balance	\$48,500.00
Interest 7% from Dec. 5, 1932 to Nov. 25, 1935	10,090.58
Insurance premium advanced	1,040.00
Interest from May 22, 1932, to Nov. 25, 1935	258.25
Insurance premium	323.63
Interest from July 18, 1935, to Nov. 25, 1935	8.44
Abstract continuation	25.00
Blue prints	21.36
	<hr/>
Total	\$60,267.26

Taxes unpaid	
1930 taxes	\$990.53
1931 taxes	909.44
1932 taxes	931.00
1933-34 taxes	892.00
1935 taxes	815.43

The amount due on the Metropolitan Life Insurance Company's mortgage, to-wit, Maravilla Apartments, as of the approximate date of the hearing was as follows:

Principal balance	\$22,355.97
Interest 6% from May 3, 1933, to November 25, 1935	3,434.80
Taxes advanced	1,936.44
Interest on taxes advanced at 6%	114.86
	<hr/>
Total	\$27,842.07

As to the properties of all the appellants, taxes were delinquent since 1929, excepting insofar as taxes were advanced by the [41] mortgagee, as above set forth.

The debtors herein were both insolvent at the time these bankruptcy proceedings were commenced. The involuntary petition was resisted by the debtors' counsel in the hope that Section 77B would be enacted by Congress, and accordingly counsel admitted at the hearing that he "stalled" the proceedings until June, when Section 77B became part of the Bankruptcy Law. The reorganization plan was then filed as part of the answer of the debtor, wherein it was proposed that the mortgagees scale the principal of their mortgages down 25% and also reduce the rate of interest. Such proposal was immediately and at all times thereafter unacceptable to the mortgagees. Therefore, it became evident to John W. Kaste, general counsel for the debtor and attorney of record herein, that the proceedings were hopeless. The debtor, however, employed additional counsel in the hope that they might be able to persuade the mortgagees to cut down their balances, but it was finally determined that the reorganization was hopeless and an order of liquidation was entered as hereinbefore set forth.

At the hearing before the Special Master on the petitions of the appellants, uncontradicted evidence was received that: The mortgages in question were delinquent as to taxes and interest, most of which ran back to 1929; the income from the mortgaged

properties, for a considerable period prior to bankruptcy, had not been used to pay taxes, interest, or other charges, against the properties, but instead had been used for general purposes of the Debtor; that the debtor ran itself before bankruptcy proceedings by using such income instead of applying the same towards the payment of interest and taxes, and such income was practically all the income that the two debtor corporations had; that during the administration of the trustees in the bankruptcy proceedings the debtors were in a state of total collapse, having virtually no income except from the mortgaged properties; that fire insurance was not maintained on the mortgaged properties, and no repairs were made except those necessary to make the rooms habitable; and that the condition of the debtors became worse as the bankruptcy proceedings continued. Also, as to each of the appellants' mortgages, two or more [42] experienced and qualified appraisers who were familiar with the mortgaged premises testified without contradiction as to the value at that time of each of the mortgaged properties. Such valuations in all cases were less than the amounts due under the terms of the mortgages.

The appellees contend that no findings were made by the Special Master on the testimony contained in foregoing paragraph. All parties to this appeal reserve their rights on such issue, the Special Master's report being quoted in full herein insofar as it relates to the questions involved in this appeal.

The Trustee at the hearing filed his accounts of the rentals collected at that time from each of the mortgaged properties, but such figures are not here presented inasmuch as, in the event of reversal of the lower court's order, a further accounting will be necessary in any event as to rentals collected after the date of the hearing before the Special Master on the mortgagees' petitions here involved.

It was stipulated at the hearing before the Special Master that all of the records on file in the bankruptcy proceedings may be considered in evidence to the extent that the Special Master and the Court could take notice of them, without their being introduced.

Under date of December 18, 1935, appellants herein duly served and filed herein a joint motion and petition for an order requiring the Trustee to segregate and hold in a separate account all moneys received from the properties against which appellants held mortgages, and to make no disbursements from said moneys for any purpose except general expenses for the operation of said mortgaged properties, without first obtaining an order of court. In support of said motion and petition it was alleged that at all times since September 10, 1934, said mortgaged premises had been in the possession and under the control of C. W. Twining, as Trustee, and his successor, H. E. Eakin, and that the said Trustees had collected all rents and profits from said mortgaged premises; that said mortgagees had filed applications for orders directing the Trustee to

segregate in the name of the mortgagees for application upon their respective mortgages all the rents, [43] issues and profits derived from said mortgaged premises; that said applications had been referred to Roy F. Shields for hearing and determination, and were still under consideration by him as Special Master; that said mortgagees claimed a first and prior lien against all the rents, issues and profits from their respective mortgaged properties, less the proper and necessary operating charges that may be allowed and fixed by the Court. No reference or hearing was had, or order entered on such petition.

From time to time herein accounts have been filed by the Trustee showing rents, issues and profits received by him and expenditures made by him as to each of the mortgaged properties, such detail not being given here for the reasons aforesaid.

All rents involved in this proceeding were collected or received subsequent to the filing of the involuntary petition in bankruptcy herein.

On November 14, 1936, Roy F. Shields as Special Master, filed in said proceedings his Special Master's report which, insofar as it relates to claims of the appellants to the rents and profits derived from their respective mortgaged properties, is as follows: [44]

[Title of Court and Cause.]

REPORT OF SPECIAL MASTER ON PETITIONS OF MORTGAGEES TO HAVE TURNED OVER TO THEM THE RENTS FROM MORTGAGED PROPERTIES.

I. Mortgages Held by Investors Syndicate.

Investors Syndicate, a Minnesota corporation, holds mortgages on properties of the Debtors as follows:

1. Nordell Apartments.

On March 10, 1926, J. C. Meyers, Incorporated, being then the owner of Lot 14, Block 11, King's Second Addition to Portland, Oregon, executed to Western Bond and Mortgage Company, an Oregon corporation, a mortgage covering said property, "together with the issues, rents and profits therefrom", to secure payment of a note in the sum of \$26,000 and interest thereon at 7% per annum, payable in monthly installments of \$260 on the 10th day of each month, beginning August 10, 1926. This mortgage was recorded on March 11, 1926, in Book 1128 at page 44 et seq., Mortgage Records for Multnomah County, Oregon. The mortgage contained covenants which required the mortgagor and its successors to pay promptly all taxes, assessments, liens or other charges that should be levied against the premises, and contained the usual covenants obligating the mortgagor to maintain insurance on the property. It also provided that [45]

"The Mortgagor herein does hereby authorize and empower the said Mortgagee its suc-

cessors and assigns and their agents and attorneys, at their election, without notice to the Mortgagor, to take and maintain full control of said premises and receive all rents and income therefrom and issue receipts therefor, and out of the amount or amounts received therefrom to retain or pay the customary charges for managing said property, pay the necessary repairs as determined by said Mortgagee, its successors and assigns, agents and attorneys, pay the taxes and assessments levied thereon, pay the premium on insurance policies now thereon or any renewals thereof, and pay the Mortgagee and its successors in interest any amounts due on this mortgage, and to pay the balance of any amount so collected to the then owner of the property, and in so doing those exercising this right shall be liable only for the amount or amounts collected by them less the necessary cost of making collections; however, such rights of collection of rents or income and to take and maintain control of said property under this authorization shall not apply so long as the payment and covenants required by this mortgage are not in default, and such control of said property under this authorization shall cease upon the removal of the default or other cause for such control until default shall again arise, and when the debt secured by this mortgage shall have been fully paid, then this authorization shall cease and be of no further force and effect.”

The mortgage contained this further provision:

“And the said Mortgagee, its successors, legal representatives or assigns, shall be at liberty immediately after any default in the payment of the principal sum mentioned in the said note or of any installment thereof, or of the interest which shall accrue thereon or of any part of either at the respective times therein specified for the payment thereof, upon a complaint filed or any other proper legal proceeding being commenced for the foreclosure of this mortgage, to apply for, and the said Mortgagee shall be entitled as a matter of right without consideration of the value of the mortgaged premises as security for the amounts due the Mortgagee, or the solvency of any person or persons bound for the payment of such amounts to the appointment by any competent Court, without notice to any owner, lessee, or other party of a Receiver to take possession of the premises and/or to collect the rents, issues and profits of the said premises with the power to lease the said premises, or such part thereof as may not then be under lease, and with such other powers as may be deemed necessary, who, after deduction of all proper charges and expenses attending the execution of the said trust as received, shall apply the residue of the said rents and profits to the payment and satisfaction of the amount remaining secured hereby or to any deficiency which may exist after applying the

proceeds of the sale of the said premises to the payment of the amount due, including interest and the costs and a reasonable attorney's fee for the foreclosure and sale." [46]

Under date of June 30, 1926, J. C. Meyers, Incorporated, executed to said Western Bond and Mortgage Company an assignment as follows:

"Know All Men By These Presents; That Whereas, J. C. Meyers, Inc., an Oregon corporation, hereinafter called the undersigned, has heretofore given unto the Western Bond and Mortgage Company, its certain mortgage in the amount of Twenty-Six Thousand and No/100 (\$26,000.00) Dollars, to secure the payment of a certain note in said amount, which mortgage covers;

Lot Fourteen (14) Block Eleven (11) King's Second Addition in the City of Portland County of Multnomah and State of Oregon.

Whereas, said loan was granted by the said Mortgagee on condition that the said Mortgagor further secures the payment of said principal sum and interest to become due thereon, by the assignment of the rents and profits accruing from the above described property and the building thereon,

Now Therefore, in consideration of the premises and in consideration of One Dollar (\$1.00) to the undersigned in hand paid by the Western Bond and Mortgage Company, the

undersigned does hereby assign and set over to the Western Bond and Mortgage Company, all its rights, title and interest in and to the rents and profits and income of whatsoever nature, due or to become due, from the property hereinabove described, or any buildings or building thereon situated, to have and to hold, until the said Western Bond and Mortgage Company, its successors and assigns, so long as the said mortgage indebtedness hereinabove described and any interest accruing thereon shall remain unpaid, it being understood, however, that so long as said mortgage shall be in good standing, and so long as each and every covenant of said mortgage shall have been complied with, the said Mortgagor, the undersigned, shall have the control and management of said property and shall be allowed to collect and disburse any and all rents and profits accruing from said property, without accounting to the Mortgagee, it being the intention of parties that this assignment shall automatically become operative upon any default or delinquency on the part of the Mortgagor under the terms and conditions of said mortgage, and that upon any such default or delinquency, the said Mortgagee shall be and hereby is, authorized and empowered without notice to exercise the rights and privileges in this assignment contained, and to apply any and all sums so collected toward the payment of said mortgage indebtedness, interest

and costs and expenses of collection so long as any of said sums shall remain due and unpaid. The Assignee herein is hereby authorized and empowered, in the event of any delinquency as above set out, to place a manager of its own selection in charge of said property to collect all rents and pay out of the proceeds of said rents a reasonable [47] compensation to said manager and to continue said manager in possession and control so long as said mortgage shall be in default.”

After the execution of said mortgage, and prior to January 1, 1934, said mortgaged premises were conveyed to National Investment Corporation, one of the Debtors herein, and the mortgage was transferred for value to Investors Syndicate.

There is and has been for many years located upon said Lot 14, Block 11, King's Second Addition, a two story brick veneer building used as an apartment house and known as Nordell Apartments. It contains 17 apartments, of which one consists of 4 rooms and 16 consist of 2 rooms. It is equipped with an old type Frigidaire refrigeration and is heated by an oil burner.

During recent years, maintenance of the building has been neglected and the interior walls are in a bad state of repair. Taxes for the years 1931 to 1935 in the amount of \$2098.75 were paid by Investors Syndicate after the owner failed to pay them. Insurance premiums have been paid by Investors Syndicate to protect its security. As of October 1,

1934, principal and interest on the mortgage indebtedness, in the amount of \$22,708.30 was due and unpaid. At that time the fair market value of the property was approximately \$27,500.00.

2. Resthaven Apartments.

On May 16, 1926, J. C. Meyers, Inc., being then the owner of Lot 10, Block 2, Goldsmith's Addition to the City of Portland, Oregon, executed to Western Bond and Mortgage Company a mortgage covering said property "together with the issues, rents and profits therefrom" to secure the payment of a loan of \$28,500 and interest thereon at 7% per annum, payable in monthly installments of \$285 on the 15th day of each month, beginning October 15, 1926. The mortgage was recorded May 25, 1926, in Book 1143, at pages 223 et seq, Mortgage Records for Multnomah County, Oregon. The mortgage contained covenants identical with those in the mortgage covering the Nordell Apartment [48] property, as set out above. Under date of June 29, 1926, J. C. Meyers, Inc., executed to said Western Bond and Mortgage Company an assignment of the rents and income from this property, which was of the same tenor as the above quoted assignment dated June 30, 1926, pertaining to the rents and income from the Nordell Apartments.

After the execution of the mortgage, and prior to January 1, 1934, the mortgaged property was conveyed to National Investment Corporation, and the mortgage was assigned and transferred for value to Investors Syndicate.

For many years there has been and is now located on the mortgaged property a two-story brick veneer building used as an apartment house and known as Resthaven Apartments.

It contains 18 apartments (exclusive of a manager's apartment), of which 2 consist of three rooms and 16 consist of 2 rooms. Maintenance of the building has been neglected and it is in a bad state of repair. Taxes for the years 1931 to 1935, inclusive, in the amount of \$2,070.01 were paid by Investors Syndicate, the Debtor having failed to pay them. Investors Syndicate has been required also to maintain insurance on the property to protect its security. As of October 1, 1934, principal and interest on the mortgage indebtedness in the amount of \$25,032.93 was due and unpaid. At that time, the market value of the property was approximately \$27,500.

3. Chapman Court Apartment.

On November 10, 1926, J. C. Meyers, Inc., being then the owner of Lots numbered 1, 2, 6, 7 and 10 in Block 22, Goldsmith's Addition to the City of Portland, Oregon, executed to Investors Syndicate a mortgage covering said property "together with the issues, rents and profits therefrom" to secure the payment of a promissory note of \$50,000.00 and interest thereon at 7% per annum, payable in monthly installments of [49] \$500.00 on the 20th day of each month, beginning May 20, 1927. This mortgage was recorded on December 9, 1926, in Book 1148, at pages 328 et seq, Record of Mortgages for Mult-

nomah County, Oregon. The Mortgage contained covenants identical with those in the mortgage covering the Nordell Apartment property as set forth above.

Under date of November 20, 1926, said J. C. Meyers, Inc., executed to said Investors Syndicate an assignment of the rents and income from the mortgaged property, the assignment being of the same tenor as the one hereinabove quoted, dated June 30, 1926, assigning the rents and incomes from the Nordell Apartment property. After the execution of said mortgage and prior to June 1, 1934, said mortgaged property was conveyed to National Investment Corporation.

There is located on this property bungalow type court buildings of brick veneer, consisting of five one-story buildings, which have been known as the Chapman Court Apartments. It contains 25 apartments, of which 8 consist of 3 rooms, 16 consist of 2 rooms and 1 has four rooms. Composition shingles on the roof are curled and not water tight, and the building generally is in a bad state of repair.

As of October 1, 1934, there was due and unpaid on this mortgage principal and interest in the sum of \$46,870.21. Taxes for the years 1931 to 1935, inclusive, in the amount of \$3,682.79 were paid by Investors Syndicate, after the owner failed to pay them. Investors Syndicate has been required also to pay the insurance premiums to protect its security.

I find that as of October 1, 1934, the market value of this property was approximately \$47,000.

4. Duplex Apartments. (First)

On March 7, 1927, J. C. Meyers, Inc., being then the owner of Lot 14, Block 22, [50] Goldsmith's Addition to the City of Portland, Oregon, executed to Investors Syndicate a mortgage covering said property "together with the issues, rents and profits therefrom" to secure the payment of a loan of \$5,000.00 and interest thereon at the rate of 7% per annum, payable in monthly installments of \$50.00 on the 7th day of each month, beginning July 7, 1927. This mortgage was recorded on March 8, 1927, in Book 1221, at pages 339 et seq., Mortgage Records of Multnomah County, Oregon. The mortgage contained covenants identical with those in the mortgage covering the Nordell Apartment property. No separate assignment of the rents and incomes from this property was made to secure the payment of the mortgage debt. After the execution of the mortgage and prior to January 1, 1934, said mortgaged property was conveyed to National Investment corporation.

There is located on this property a frame duplex apartment building, containing twelve rooms segregated into two apartments, one consisting of 8 rooms and the other of 4 rooms. For want of repainting, the exterior walls have worn down to the wood siding, and the building is in need of repairs.

As of October 1, 1934, there was due and unpaid principal and interest accruing on this mortgage in the sum of \$4,663.81. Taxes for the years 1931 to 1935, inclusive, in the amount of \$456.97 were

paid by Investors Syndicate, the owner having failed to pay them. Investors Syndicate has been required also to pay insurance premiums to protect its security.

I find that as of October 1, 1934, the market value of this property was approximately \$5,000.00.

5. Duplex Apartment. (Second)

On March 22, 1927, J. C. Meyers, Inc., being then the owner of Lot 11, in Block 22, Goldsmith's Addition to the City of Portland, Oregon, executed to Investors Syndicate a mortgage covering said property "together with the issues, rents and profits therefrom" to secure [51] the payment of a loan of \$5,000.00 and interest thereon at the rate of 7% per annum, payable in monthly installments of \$50.00 on the 22nd day of each month beginning July 22, 1927. This mortgage was recorded on March 24, 1927, in Book 1234, at pages 146 et seq., Mortgage Records for Multnomah County, Oregon. The mortgage contained covenants identical with those in the mortgage covering the Nordell Apartment property. No separate assignment of the rents and incomes from this property was made to secure the mortgage debt. After the execution of said mortgage and prior to January 1, 1934, said mortgaged property was conveyed to National Investment Corporation.

There is located upon this property a frame duplex apartment building, segregated into two apartments, one consisting of 8 rooms and one of 4 rooms. Maintenance of this building, and particularly the painting of it, has been neglected.

As of October 1, 1934, there was due and unpaid

principal and interest accruing on this mortgage in the sum of \$4,666.47. Taxes for the years 1931 to 1935, inclusive, in the amount of \$456.97 were paid by Investors Syndicate, after the owner failed to pay them. Investors Syndicate has been required also to pay the insurance premiums to protect its security.

I find that as of October 1, 1934, the market value of this property was approximately the sum of \$5,000.

On September 10, 1934, the court appointed a trustee to take possession and control of the debtor's property. On September 14, 1934, the trustee took possession of the properties above mentioned and thereafter collected the rents from them. On October 29, 1934, Investors Syndicate filed in this cause its petition setting out the facts with respect to the mortgages held by it on the Nordell, the Resthaven, Chapman Court and the two duplex apartment properties above mentioned, alleging that the amounts [52] of the respective mortgage debts were substantially equal to the then value of the mortgaged properties, respectively, and that the properties were being neglected and depreciating in value, and praying that Investors Syndicate be permitted to institute suit for the foreclosure of said mortgages, and praying further that the trustee be directed to collect and segregate for the benefit of Investors Syndicate the rents, issues and profits from the mortgaged properties. At the same time Investors Syndicate filed a motion for an order in conformity with the prayer of its petition. The petition

was verified, and there was attached to it an affidavit setting forth the value of each property and its physical condition. Permission to foreclose was granted and in July, 1935, Investors Syndicate instituted suits for the foreclosure of each of the mortgages held by it as above set forth.

J. C. Meyers, Inc., the maker of each of the mortgages held by Investors Syndicate, was dissolved on July 5, 1927, and it has no assets and is no longer in existence. Some of the notes held by Investors Syndicate were signed or endorsed by J. C. Meyers and wife, individually, but for several years neither of them has resided in the State of Oregon and personal service of process on them could not be obtained. National Investment Company, on acquiring the several properties as aforesaid, did not assume the personal indebtedness of the makers of the notes. For the reasons stated, Investors Syndicate's recourse for the collection of the amounts due on the mortgages held by it is confined to the mortgaged properties. [53]

II. Mortgages Held by Portland Trust & Savings Bank.

1. Adele Manor.

On March 30, 1928, Harry Mittleman and Helen R. Mittleman, husband and wife, being then the owners of Lots 30 and 34, Cedar Hill, in the City of Portland, Oregon, executed to Portland Trust and Savings Bank a mortgage covering said property to secure the payment of 79 promissory notes, ag-

gregating the principal sum of \$52,500.00, with interest thereon at the rate of 7% per annum. The several notes, each in the amount of \$500.00, were made to mature on various dates beginning March 28, 1930, and ending March 28, 1938. The mortgage was recorded April 2, 1928, in Book 1320, at pages 261 et seq., Mortgage Records for Multnomah County, Oregon. The mortgage contained the following covenant:

“As a part of the security for the sums due and to become due the Mortgagee hereunder, the Mortgagor/s do/does hereby convey and assign all of the rent, issues and profits of the mortgaged property above described from and after default by the Mortgagor/s in the payment of any sum or sums due hereunder, or any other terms of this mortgage, and in any suit, action or proceeding to foreclose this mortgage, the court may, on motion of the party of the second part, or its assigns, and without notice, appoint a receiver to collect the rents and profits issuing out of said premises during pendency of such foreclosure and until the right of redemption expired, and such rents and profits shall, after payment of all necessary expenses, be applied in payment, pro tanto, of the amounts due under this mortgage.”

After the execution of the mortgage and prior to January 1, 1934, the mortgaged property was transferred by mesne conveyances to Guaranty Trust Company, which assumed the mortgage debt. There

is due and unpaid on the mortgage indebtedness the principal sum of \$48,500.00 and several years' interest.

There is located upon said mortgaged property, an apartment house building known as the Adele Manor, and the apartments therein have been rented and produced income. [54]

On July 2, 1933, Portland Trust and Savings Bank instituted in the Circuit Court of the State of Oregon for Multnomah County a suit for the foreclosure of its said mortgage (Portland Trust and Savings Bank, a corporation, trustee, plaintiff, v. Harry Mittleman, et al, defendants, No. 110661), and moved the court for the appointment of a receiver to take charge and possession of the mortgaged premises and to collect the rents, issues and profits therefrom and apply the same in accordance with the order of the court. The motion came on for hearing on August 10, 1933, and thereupon the court, in lieu of appointing a receiver as requested, entered an order directing Guaranty Trust Company to file in said court each month during the pendency of said suit, verified accounts showing all money received and all disbursements made in the operation of said apartment house and to pay the net income from the property into court to be applied as the court later should direct. Afterward, said order was modified whereby the Guaranty Trust Company was permitted to retain from the net monthly rentals received from the mortgaged property an amount equal to 20% thereof as compensa-

tion for the use of furniture and fixtures in the apartment house belonging to Guaranty Trust Company and not covered by said mortgage. Pursuant to said orders of the Circuit Court, Guaranty Trust Company or its attorney, John W. Kaste, filed monthly reports of the net income from said property as required by said orders and paid such net income into the Circuit Court for the period August 1, 1933, up to and including May 11, 1934. Such net rental and income for the period subsequent to May 11, 1934, was collected by said John W. Kaste and retained by him until after the appointment of C. W. Twining as trustee in this proceeding. Thereafter said John W. Kaste, upon the order of this court, paid the accumulated net income and rental in his hands to said C. W. Twining as trustee. From that time on such net rentals and income have been received by the trustee in this [55] proceeding.

2. Charmaine Apartments.

On July 17, 1928, Harry Mittleman and Helen R. Mittleman, husband and wife, being then the owners of Lot 29, and 35, Cedar Hill, in the City of Portland, Oregon, executed to Portland Trust and Savings Bank, as trustee, a mortgage on said property to secure the payment of 71 promissory notes aggregating in principal the sum of \$50,000.00 and interest thereon at 7% per annum. These notes, each in the sum of \$500.00, were to mature serially on various dates beginning July 17, 1930, and ending July 17, 1938. This mortgage was recorded July 18,

1928, in Book 1345 at pages 209, et seq., Mortgage Records for Multnomah County Oregon. The mortgage contained the following covenant:

“As a part of the security for the sums due and to become due the Mortgagee hereunder, the mortgagor/s do/does hereby convey and assign all the rent, issues and profits of the mortgaged property above described from and after default by the Mortgagor/s in the payment of any sum or sums due hereunder, or any other terms of this mortgage, and in any suit, action or proceeding to foreclose this mortgage, the court may, on motion of the party of the second part, or its assigns, and without notice, appoint a receiver to collect the rents and profits issuing out of said premises during pendency of such foreclosure and until the right of redemption expires, and such rents and profits shall, after payment of all necessary expenses, be applied in payment, pro tanto, of the amounts due under this mortgage.”

There is due and unpaid on this mortgage principal in the sum of \$47,000.00 with several years' interest. After the execution of said mortgage and prior to January 1, 1932, the mortgaged property was conveyed by mesne conveyances to Guaranty Trust Company, which assumed the mortgage debt.

There is located upon said property an apartment house, known as the Charmaine Apartments, and the apartments therein have been rented.

On July 2, 1933, Portland Trust and Savings Bank [56] instituted in the Circuit Court of the State of Oregon for Multnomah County, a suit to foreclose said mortgage (Portland Trust and Savings Bank, trustee, a corporation, plaintiff, v. Harry Mittleman, et al, defendants, No. 110662) and moved the court for the appointment of a receiver to take charge and possession of the mortgaged premises and to collect the rents, issues and profits therefrom and to apply the same in accordance with the order of the court. Said motion came on for hearing on August 10, 1933, and the court entered therein an order to the same effect as that entered upon the same day in the suit hereinabove mentioned involving the Adele Manor property. Thereafter the same proceedings were had with respect to the rents and incomes from said Charmaine Apartments as those taken with respect to the Adele Manor Apartments, and the rents, issues and profits from the two properties were handled, accounted for and disposed of in the same manner.

On February 2, 1935, Portland Trust and Savings Bank filed in this cause its petition, setting out the facts hereinbefore stated with respect to said mortgages upon the Adele Manor and Charmaine Apartments, the institution of said foreclosure suits, the order of the said Circuit Court with respect to the collection, handling and accounting for the rents, issues and profits from said apartment houses, and praying for an order authorizing and directing John W. Kaste and C. W. Twining, as trustee, to pay to

the Clerk of the Circuit Court for Multnomah County all of the net rentals derived from the mortgaged premises, less the 20% thereof to be deducted for the use of the furniture and fixtures. No final action has been taken by the court on that petition.

[57]

III. Mortgage Held by Metropolitan Life Insurance Company.

Marvilla Court Apartment.

On September 17, 1929, Irving A. Duncan and Ethel J. Duncan, husband and wife, being then the owners of Lots 11 and 12, in Block numbered 107, Irvington, in the City of Portland, Oregon, executed to Portland Trust and Savings Bank a mortgage on said property to secure the payment of a promissory note in the principal sum of \$25,000.00 with interest at 6% per annum, payable \$750.00 on September 1, 1930, and a like amount on the first day of each March and September thereafter until March 1, 1940, when the balance of the principal sum should become due. This mortgage was recorded September 17, 1929, in Book 38, at page 47, et seq., Record of Mortgages for Multnomah County Oregon. Said mortgage contained the following covenant:

“The rents, issues and profits of the mortgaged property, to and until maturity of the indebtedness secured hereby, either by lapse of time or by reason of default of the Mortgagors, shall belong to the Mortgagors, but upon maturity of said indebtedness for any cause, the

Mortgagee shall have the right forthwith to enter into and upon the mortgaged premises and take possession thereof, and to collect the rents, issues and profits thereof, and apply the same, less reasonable costs of collection, upon the indebtedness hereby secured, and the Mortgagee shall have the right to the appointment of a receiver to collect the rents, issues and profits of the mortgaged premises immediately upon default of the Mortgagors and without notice.”

On July 18, 1930, Irving A. Duncan and Ethel J. Duncan conveyed said mortgaged property to Guaranty Trust Company subject to said mortgage, but Guaranty Trust Company did not assume the personal indebtedness of the mortgagors. After the execution of said mortgage and prior to the 1st day of January, 1934, Portland Trust and Savings Bank transferred and assigned said mortgage and the note secured thereby to Metropolitan Life Insurance Company. [58]

As of November, 1935, there was due upon said note and mortgage, principal in the sum of \$22,355.97, interest in the sum of \$3,434.80, and taxes advanced by the mortgagee in the amount of \$1,936.44. The 1935 taxes in the amount of \$426.08 were not paid. For many years there has been and is now located upon said mortgaged property an apartment house known as the Marvilla Court Apartment, and the apartments therein have been rented. On October 29, 1934, Metropolitan Life In-

insurance Company filed in this proceeding a petition setting out the facts above stated with respect to said mortgage and the indebtedness secured by it and praying that it be permitted to file a suit to foreclose said mortgage and that the trustee herein be required to segregate and keep separate for the benefit of Metropolitan Life Insurance Company the rents, issues and profits derived from the mortgaged premises. Permission to foreclose said mortgage was granted and in July, 1935, a suit for the foreclosure of said mortgage was instituted in this court.

IV. Mortgage Held by Joseph A. West. Multnomah Court Apartment.

On February 16, 1927, Julia Douglas, a widow, being then the owner of Lots 8 and 9, in Block lettered A, Holiday Park Addition to the City of Portland, together with an adjacent strip of land, executed to the Mortgage-Bond Company of New York, a New York corporation, a mortgage covering said property to secure the payment of a note in the sum of \$24,000.00, with interest thereon at 6½% per annum, payable in installments of \$625.00 each on the first days of March and September during the years 1929 to 1936, inclusive, and the balance of \$14,000.00 on the first day of March, 1937. The mortgage was recorded on February 19, 1927, in Book 1212 at page 323, et seq. Mortgage Records for Multnomah County, Oregon. The [59] mortgage contained the following covenant:

“As an additional security and pledge for the payment of said indebtedness, and subject to the terms and provisions of this mortgage, said mortgagor does hereby bargain, sell, and assign to said mortgagee all the rents, issues, and profits of said premises, and in event of a bill or complaint being filed to foreclose this mortgage, the court shall, on motion or application of said mortgagee, either at the time of filing such bill or complaint or thereafter, and without regard to the condition of said property at such time, appoint a receiver to collect the rents and profits of said premises during the pendency of such foreclosure and apply such rents, issues, and profits to the payment pro tanto of the amounts due under this mortgage, first deducting all proper charges and expenses of such receivership, and said mortgagor agrees to forthwith surrender possession to any receiver so appointed.”

After the execution of said mortgage and prior to the first day of January, 1934, said mortgaged property was transferred by mesne conveyances to National Investment Corporation. On June 15, 1934, said mortgage and the note secured thereby were assigned and transferred to Joseph A. West who owns the same.

As of November, 1935, there was due and unpaid on said note and mortgage the sum of \$20,250.00 with several years' interest.

There is located upon said property an apartment house, known as Multnomah Court Apartments, and the apartments therein have been rented.

By an order of this court entered August 1, 1935, permission was granted to Joseph A. West to institute a suit for the foreclosure of said mortgage and on August 19, 1935, a complaint to foreclose the mortgage was filed in the Circuit Court of the State of Oregon for Multnomah County (cause No. 119-303, Joseph A. West, plaintiff, v. Guaranty Trust Company, et al, defendants). There has been no attempt to sequester the rents and income from the mortgaged property except such as may appear from the facts stated in this report. [60]

Facts Pertaining to All Mortgages.

The order of the court entered September 10 1934, appointing a trustee in this proceeding, contained the following:

“Ordered that said trustee shall forthwith take possession of all property, assets, and business of the Guaranty Trust Company and National Investment Company and of each of them, wheresoever situated, and to make and file herein an inventory or schedule thereof; and it is further

Ordered that said trustee shall have power and authority to manage, operate and control the properties and assets coming into his possession, and to incur the usual and necessary expense usually incident to the operation

thereof, provided, however, that all expenditures be made upon order of the court; and it is further

Ordered that said trustee shall keep separate accounts of all moneys coming into his possession from each of the several properties of the debtor or its said affiliate, and that the trustee's accounts shall be kept so that all income and revenues received and expense incurred in the operation of each of such properties can at all times be ascertained and segregated."

Pursuant to that order, the trustee took possession of the mortgaged properties herein above described on September 14, 1934, and ever since has been collecting the rents and income from them. In his accounts, the trustee has kept the income from the several mortgaged properties segregated so as to show the gross amount of income from each. Likewise, he has kept segregated the allocable items of expense incurred in maintaining and operating each of those properties. From the gross receipts from all properties, the trustee has paid out certain items of expense, like general supervision, incurred in managing and operating the properties, but which could not be allocated definitely to any particular property, except upon some arbitrary basis which has not been prescribed.

From the handling of these mortgaged properties there has accumulated in the hands of the trustee a net balance of income above expenses of operation of between \$10,000.00 and \$20,000.00, which all [61]

parties other than the mortgagees claim is subject to the payment of the several claims now presented. Except for this fund, there are no substantial assets in the hands of the trustee available for the payment of those claims.

I find that if the mortgagees are entitled to hold the rents and income from the respective mortgaged properties as a part of their security, there should be deducted from such rents and income and retained as general assets of the Debtors' estate, such amounts as will reasonably compensate the estate for collecting such rentals and supervising and managing the mortgaged properties. I conclude from the testimony that 5% of the gross income from each of the apartment houses is a reasonable sum to be retained to cover the expense to the estate of handling that property.

In some of the mortgaged apartment houses, the apartments are furnished in whole or in part by furniture and equipment belonging to the debtor and not covered by the lien of the mortgages. Rents and income obtained from the use of such furniture and equipment cannot be treated as security for the respective mortgage debts, but constitute general assets of the Debtors' estate. I find that as to each of the furnished two-room apartments, \$2.50 per month, and as to each of the furnished apartments comprising three rooms, \$3.50 per month, and as to each furnished apartment comprising four or more rooms, \$4.00 per month, should be considered as representing income from furniture and equipment in

those apartments; and with respect to all those apartments furnished with furniture and equipment not covered by the mortgagee's lien on the building, such income from furniture and equipment should be considered general assets of the Debtors' estate.

General Conclusions of Law on Claims of Mortgagees.

Section 5-112 Oregon Code 1930 provides:

“A mortgage of real property shall not be deemed [62] a conveyance so as to enable the owner of the mortgage to recover possession of the real property without a foreclosure and sale according to law; provided, that nothing in this act contained shall be construed as any limitation upon the right of the owner of real property to mortgage or pledge the rents and profits thereof, nor as prohibiting the mortgagee or pledgee of such rents and profits, or any trustee under a mortgage or trust deed from entering into possession of any real property, other than farm lands or the homestead of the mortgagor or his successor in interest, for the purpose of operating the same and collecting the rents and profits thereof for application in accordance with the provisions of the mortgage or trust deed or other instrument creating the lien, nor as any limitation upon the power of a court of equity to appoint a receiver to take charge of such real property and collect such rents and profits thereof.”

That part of the section which includes and follows the word "provided" was added by an amendment which took effect May 28, 1927. (General Laws of Oregon 1927, Chapter 310, page 392) The remainder of the section has stood in the same form since 1862. Some of the mortgages in question were executed prior to the effective date of the 1927 amendment, and others were executed thereafter.

Mortgages Executed Prior to 1927 Amendment to Section 5-112 Oregon Code 1930.

Parties other than the mortgagees, while claiming that all income from the mortgaged properties is subject to the payment of their claims, urge that this is particularly true as to the income from properties mortgaged prior to the effective date of the 1927 amendment, for the reason that Section 5-112 Oregon Code in its then existing form rendered void, as against public policy, any agreement pledging the rents, issues or profits from the mortgaged properties as security for the mortgage debt. They rely on such cases as *Teal v. Walker*, 111 U. S. 242; *Thompson v. Shirley*, (Oregon District Court), 69 Fed. 484; and *Couper v. Shirley* (C. C. A. 9th), 75 Fed. 168; construing the Oregon statute, and *Hazeltine v. Granger*, 44 Mich. 503 (7 N. W. 74), *Wagar v. Stone*, 36 Mich. 364; *Detroit Trust Co. v. Lipsitz*, 264 Mich. 404 (249 N. W. 892); *Western Loan & Bldg. Co. v. Mifflin*, [63] 162 Wash. 33 (297 Pac. 743); and *State ex rel Gwinn v. Superior Court*, 170 Wash. 463 (16 Pac.(2d) 831); construing simi-

lar statutes in Michigan and Washington. These cases hold, in substance, that under such statutes a mortgage is merely security for a debt and not a conveyance; that the mortgagee is not entitled to possession until he gets it by a decree of foreclosure; that not being entitled to possession, the mortgagee's claim to the rents prior to foreclosure "is without support"; and that a stipulation pledging the rents to secure the mortgage debt is contrary to the public policy of the state as declared in the statute.

On the other hand, these same cases hold that such a statute does not take away from courts of equity the power to appoint a receiver to take possession of the mortgaged property and collect the rents and profits therefrom, upon a showing that the mortgagor is insolvent and that the security is inadequate or that waste is being permitted. The same courts hold that non-payment of taxes may constitute waste within that rule. (*Newman v. Northwick*, 95 Wash. 489, 164 Pac. 61; *Euphrat v. Morrison*, 39 Wash. 312, 81 Pac. 696; *Nusbaum v. Shapero*, 249 Mich. 252, 228 N. W. 785).

Except for the respectability of the authority holding that a statute providing merely that

"a mortgage of real property shall not be deemed a conveyance so as to enable the owner of the mortgage to recover possession of the real property without a foreclosure and sale according to law."

renders void a voluntary agreement to place the mortgagee in possession or to secure the debt by an

assignment of the rents, it would be difficult for me to reach that conclusion. As said in *Roberts v. Sutherlin*, 4 Ore. 219, 224:

“The notion that a mortgagee’s possession, whether before or after default, enlarges his estate, or in any respect changes the simple relation of debtor or creditor, between him and his mortgagor, rests upon no foundation,”

and further (224): [64]

“The result of this construction of the law of mortgages is simply declaratory of the true doctrine that the people should not be unnecessarily trammled or restrained in their right to deal with their property according to their own judgment of what may be for their best interests. If a mortgagor chooses to retain the possession of his mortgaged premises until a foreclosure and sale, he may do so; if he thinks that his interests will be promoted by investing his mortgagee with possession before that time, he is bound by his act according to the terms and legal effect of his agreement.”

Accordingly it is well settled in Oregon that if the mortgagee obtains possession of the mortgaged premises with the consent of the mortgagor or otherwise acquires such possession peaceably, he may retain possession until the mortgage debt is paid. (*Roberts v. Sutherlin*, 4 Ore. 219, 224; *Cooke v. Cooper*, 18 Ore. 142, 147-149; *Lambert v. Howard*, 49 Ore. 342, 345). In so holding the Oregon court,

construing this same statute in the Cooke case said (18 Ore. 148-149):

“It results, therefore, that while a mortgagee is not permitted to maintain a possessory action to recover the mortgaged premises by reason of the default of the mortgagor, still, if he can make a peaceable entry upon the mortgaged premises after condition broken, he may do so, and may maintain such possession against the mortgagor and every person claiming under him subsequent to the mortgage, subject to be defeated only by the payment of his debt. This view of the law in no manner interferes with the just rights of the mortgagor, and at the same time it does not sacrifice the interest of the mortgagee to the merest technicalities of the law, which have sometimes been permitted to prevail, and the mortgagee turned out of possession stripped both of the property and his mortgage debt as well.”

There is, of course, an obvious distinction between an agreement as to possession or rentals made at the time when the mortgage debt is created, and one made thereafter; but the Oregon Court did not rest the cited decisions on such a distinction. The differentiation which the Oregon Court did make was that between implications that would extend the mortgage contract beyond its terms, which the statute condemns, and voluntary stipulation as to possession, which the statute does not mention. And

these cases do made it clear that [65] a mortgage is still merely a lien, even though the mortgagee is in possession, and that such possession, at least after condition broken, is not prohibited by the statute.

It is urged that *State ex rel Nayberger v. McDonald*, 128 Ore. 684 is to the contrary. I do not think so. In that case, a first mortgage on property covered the rents and profits from that property. A second mortgage covered the property only and did not include the rents and profits. The claim to the rents was made by the second mortgagee who claimed, not through his second mortgage, but through the first mortgagee by subrogation. The court denied the right of subrogation because the second mortgagee had not paid the first mortgage debt; and it denied the right to the rents under the second mortgage because that mortgage did not grant that right, and none was created by statute when the parties had not so agreed.

Of course the validity and scope of the mortgages in question are to be determined by the law of Oregon. *Continental Bank v. Nineteenth & S. W. Corp.* (C. C. A. 3rd) 79 Fed.(2d) 284, 285. The mortgagees claim that the Oregon legislature has construed the former statute in their favor when it passed the 1927 amendment. On the other hand, those opposing the mortgagees claim that the legislature, by adopting that amendment, gave an opposite legislative construction of the prior statute. Authorities bearing generally on the subject are

cited in support of each of the opposing contentions. None of the cases cited are directly in point here, and we must determine the legislative purpose by analyzing the language used.

All that was added by the 1927 amendment was the proviso. Generally a proviso is not used to extend the purview of an act, but rather to explain or qualify what otherwise has been enacted. (*Minis v. United States*, 15 Pet. 423; *Olson v. Heisen*, 90 Ore. 176, 178; *Meyers v. Pacific States Lumber Co.*, 122 Ore. 315, 320)

The proviso begins with the significant language that "nothing herein contained shall be construed as any limitation upon [66] the right of the owner of real property to mortgage or pledge the rents or profits thereof * * *". It deals purely with the construction of the prior statute and does not purport to create a right which did not theretofore exist. "An expository or declaratory act is one that does not purport to change the former law but only to determine the proper construction to be placed upon the common law or a former statute" (59 C. J. 1181). I think that the 1927 amendment was an act of that character, and that the interpretation declared in 1927 was in accord with that intended in 1862 when the original statute was enacted. [67]

However that may be, I think that the 1927 amendment is applicable here. Such application does not impair, but rather carries out, the obligations of the agreements voluntarily made by com-

petent parties. "A statute may not be declared unconstitutional on the ground that it gives binding force to a voluntary agreement void or unenforceable when made", (12 C. J. 1060; Benton County Savings Bank v. Lowry, 160 Wis. 659, 152 N. W. 463); and that is true even though the contract when made was void on account of being against public policy. (Gross v. U. S. Mortgage Co., 108 U. S. 477, 488; Iowa Savings & Loan Association v. Heidt, 107 Iowa 297, 77 N. W. 1050).

It is my conclusion that with respect to the application of rents and income from mortgage properties, there is no difference, for the purposes of this case, between mortgages executed prior to the 1927 amendment and

Mortgages executed subsequent to the 1927
amendment to Section 5-112 Oregon Code,
1930.

Those opposing the mortgagees claim that under the 1927 amendment the right of the mortgagors to the appointment of a receiver for the sequestration of the rents and profits from mortgaged properties can be exercised only as an incident to a direct proceeding to foreclose the mortgages; that the appointment of a receiver can be made only upon a showing of the insolvency of the mortgagor and the inadequacy of the security; that prior to the commencement of this proceeding, no receiver for any of the mortgaged properties had been appointed nor had the rents and profits from any

of the properties been sequestered in any manner; that none of the mortgagees have submitted themselves to the jurisdiction of this court for any purpose; and that "under these circumstances the bankruptcy court did not and could not by any proper proceeding sequester the rents from these properties for the benefit of the mortgagees". [68]

Then explaining the broad factual premise thus assumed with respect to the two mortgage foreclosure proceedings instituted by Portland Trust and Savings Bank on July 2, 1933, for the foreclosure of its mortgages on the Adele Manor and Charmaine Apartment properties, respectively, they assert that while the appointment of receivers in those cases was applied for, no receiver was appointed; that the deposits in court under the orders then made for the deposit in court of the net income from the properties, ceased upon the appointment of the trustee in this proceeding; that moneys then in the hands of Mr. Kaste and later turned over to the trustee "were, in law, the moneys of the bankrupt, and hence little thereto vested in the trustee in bankruptcy upon his appointment"; and that rentals thereafter collected by the trustee from those properties came into his possession independently of any action taken in the foreclosure proceedings.

Taking up the two last mentioned mortgages first, it seems to me that the argument made confuses form with substance. A receiver is an officer of the court appointed as a convenient means of

carrying out the directions of the court in handling property in custodia legis. It is clear that the state court, though refraining from appointing a receiver for these two mortgaged properties, did intend to impound the net income from the mortgaged properties and thereby accomplish the same purpose as the appointment of a receiver. The orders were obeyed and the net income was paid into court as directed. That course would have continued except for the appointment of a trustee in this proceeding. It is not for this court to say that the state court should have followed one procedure or another for impounding these rentals; the important fact is that the state court, in a manner deemed by it and the parties to be appropriate, did in fact take charge of these rentals for the protection of the mortgagee, and continued to exercise that control until action of this court intervened. Those rights cannot [69] be prejudiced by the action of this court in appointing a trustee to take possession of the property. (*Continental Bank v. Nineteenth & S. W. Corp.* (C. C. A. 3rd) 79 Fed.(2d) 284, 285). That the state court acted directly instead of through its receiver in the handling of those funds does take away the rights acquired by the mortgagees prior to the commencement of this proceeding. It is my conclusion, therefore, that the rentals from those two properties were appropriately sequestered and the rights of the mortgagee therein must be determined on that basis.

As to the rentals from the other mortgaged properties a different question is presented. If this were

the usual bankruptcy proceeding not involving Section 77-B of the Bankruptcy Act, we would have the aid of precedent, although even then the adjudications are conflicting. See note 75 A. L. R. 526 under heading "Rights in respect of rentals and profits as between mortgagee and trustee in bankruptcy of mortgagor", wherein the author summarizes the cases as follows:

"A conflict exists on the question here considered. By the weight of authority it is held that the mortgagor is entitled to rents and profits accruing up to the time the mortgagee enters, or brings a bill to foreclose or enter, and that this right inheres in the mortgagor's trustee in bankruptcy and that the latter, up to the time the mortgagee takes action, takes the rents and profits for the benefit of the bankrupt's creditors."

The majority rule as thus announced was followed by the Circuit Court of Appeals of the Ninth Circuit in *Re Hotel St. James Company*, 65 Fed. (2d) 82. In that case the mortgage authorized the mortgagee (trustee for bondholders) to take possession of the property and operate it for the benefit of the bondholders or to obtain the appointment of a receiver to take charge of the property and collect the rents and income from it. But the mortgagee, at the time the mortgagor was adjudged a bankrupt, had not taken possession of the property, nor obtained the appointment of a receiver. After the adjudication in bankruptcy, [70] no application

was made to the bankruptcy court to direct the receiver to sequester the rents. After the property had been sold, the mortgagee made claim to the rentals collected by the trustee. In denying the claim, the court said (84-85):

“The trust indenture provided:

‘If one or more of the events of default shall happen, the Trustee * * * shall enter * * * and take * * * possession of the trust estate, * * * and may * * * operate * * * the estate, and conduct the business thereof to the best advantage of the holders of the bonds secured hereby. * * *

‘The Trustee shall be entitled to the appointment of a receiver of the trust estate and of the earnings, rents, dividends, income, interest and profits thereof. * * *’

No attempt was made by bondholders, or trustee under the trust deed, to take possession before bankruptcy or to have a receiver appointed specifically for their benefit. No petition was addressed to the bankruptcy court to direct the general receiver, or the trustee, to sequester the rents and profits, as in *Mortgage Loan Co. v. Livingston*, supra; no claim to the rents was made until after the sale.

In such circumstances the second Circuit in *re Brose*, 254 F. 664 (1918), has held that the mortgagee is not entitled to the money. After quoting at page 666 of 254 F. from Freedman’s

Savings & Trust Co. v. Shepherd, 127 U. S. 494, 8 S. Ct. 1250, 32 L. Ed. 163 (1888):

‘The general rule is that the mortgagee is not entitled to the rents and profits of the mortgaged premises until he takes actual possession, or until possession is taken, in his behalf, by a receiver, * * * or until, in proper form, he demands and is refused possession,’ the court continued: ‘This general rule the federal courts will follow, except in cases where it appears that the law of the state where the premises are situated applies a different rule.’”

The court found that such was the rule in New York. So it is in California. 17 Cal. Jur. Sec. 288, page 1013; *Freeman v. Campbell*, 109 Cal. 360, 42 P. 35 (1895); *Simpson v. Ferguson*, 112 Cal. 180, 40 P. 104, 44 P. 484, 53 Am. St. Rep. 201 (1896). And a trust deed in California gives no greater right to possession, and thus rents, than does a mortgage. 25 Cal. Jur. Sec. 29, page 41; 17 Cal. Jur. Sec. 25, page 721. Cases in other courts are collected in notes 4 A. L. R. 1405, 1410; 55 A. L. R. 1020, 1022.

Without citing *In re Clark Realty Co.*, 234 F. 576, in which, in 1916, the Seventh Circuit Court of Appeals denied the mortgagee’s right to such rents, that court, in 1931, *In re Wakey*, 50 F.(2d) 869, 871, 75 A. L. R. [71] 1521, reached the opposite conclusion. We cannot concur therein or in the statement that while the

facts in the Livingston case, supra, 'are not in all respects similar * * * the principle involved is the same.' In the Livingston case, foreclosure was commenced before bankruptcy, and, as the court said, would have given the mortgagee possession, but for the bankruptcy, two days after the petition in bankruptcy was filed. Moreover, immediately upon the appointment of the receiver in bankruptcy, the mortgagee requested sequestration of the rents, to which the receiver assented, and repeatedly thereafter asked leave to continue the enjoined foreclosure."

This case, like most of the others applying the same rule, points out the failure of the mortgagee to make timely and appropriate application to the bankruptcy court for a sequestration of the rents. Moreover, in that case, as in many of the others reaching a like conclusion, there was no express assignment of the rents and profits as security for the mortgage debt, there being an important distinction between a mere right of the mortgagee to take possession, by a receiver or otherwise, upon default, and an express assignment of the rents and profits as a part of the security pledged originally.

But as I view our present question, it is not settled by the cases cited on either side. Section 77-B, not involved in any of those cases, confers upon the court powers with respect to the possession and control of the debtors' property that are much broader than those formerly vested in the bankruptcy Court. The preservation of the debtors'

properties and relationships for the purpose of working out a reorganization and the continuation of the debtor in business, required wider powers in this respect than is necessary in a mere liquidation proceeding. Reorganization contemplates conference and negotiation with creditors and stockholders, the submission and study of reorganization plans, the opportunity to propose and consider modified or substitute plans, the rearrangement of the debtors' corporate and debt structures, and the negotiation of many contracts and other instruments of various kinds essential to a reorganization, and all this ordinarily requires much more time than a straight liquidation, conducted for the greater part *ex parte*. [72] In the meantime it is necessary that the debtors' properties be preserved intact as a going concern. To accomplish that, it was necessary, so far as Congress could authorize it to be done, to bring all properties of the debtor under the control of the court and hold creditors at bay until the success or failure of the reorganization program may be determined.

In these circumstances, if the filing of a petition under Section 77-B is to tie the hands of a mortgagee whose mortgage is in default while the trustee takes possession of that property and collects the rent for the benefit of others for a long period of time, the result is to take from the mortgagee some of the substance of his security. Since he can obtain protection only through the court having jurisdiction of the reorganization proceeding, he

ought not to be held to have waived his rights by failing to apply to some other forum that is powerless to help him. The only course open to the mortgagees here for the protection of their rights in the mortgaged property was that which they actually took, namely, to apply to this court to have segregated and held for them the rents and profits from the properties mortgaged to them, until such time as the proposed reorganization should be accomplished or liquidation should be directed.

The thought I have in mind is illustrated by the decision of the Circuit Court of Appeals of the Second Circuit in *Prudential Ins. Co., v. Liberdar Holding Company*, 74 Fed.(2d) 50, wherein a mortgagee was claiming rentals collected by a receiver from mortgaged property. The court said (p. 53):

“In dealing with an Oregon statute (Gen. Laws Or. 1843-1872, c. 4, tit. 1, Sec. 323) providing that ‘a mortgage of real property shall not be deemed a conveyance so as to enable the owner of the mortgage to recover possession of the real property without foreclosure and sale according to law,’ the Supreme Court held that a covenant in a mortgage requiring possession to be given to the mortgagee in the event of default was unenforceable. *Teal v. Walker*, 111 U. S. 242, 4 S. Ct. 420, 28 L. Ed. 415. We think that the effect of the New York Act of 1828 (2 N. Y. Rev. St. (1st Ed.) 1829, p. 312, pt. 3, c. 5, tit. 1, Sec. 57 [73] (now Civil Practice Act, Sec. 991) forbidding a mortgagee to bring ejectment for the recovery of possession of

mortgaged premises in the event of default (section 991, Civil Practice Act) cannot be avoided by a contract between the parties. *One Hundred and Forty-Eighth Street Realty Co., Inc. v. Conrad*, 125 Misc. 142, 210 N. Y. S. 400. It is much more in accord with its spirit that the court should appoint a receiver in foreclosure or if, as in the present case, receivers have already been appointed in a suit for conservation of assets, that the court should retain possession of the property and have the rents collected for the benefit of all concerned. In this way the general creditors will not be in a position to complain of mismanagement by the mortgagee, *while the latter will have its rights protected as fully as though the properties were in its own possession and under its management.**

We see no reason for enforcing a covenant which gives a mortgagee possession in the event of default. The receivers are vitally interested in the amount that may be derived from the premises in suit for, should the foreclosure sale yield enough to pay the mortgage, the rents would in effect wholly inure to their benefit. Their collection of the rentals pursuant to the decree *will serve the interest of all parties.*'

In view of the unusually broad powers conferred by Section 77-B upon the court and the trustee with respect to possession and control of the debtors' property, I think that in the case at bar, as in the

*[Printer's Note: Emphasis by the Court.]

one last cited, the appointment of the trustee and his possession were intended to "serve the interests of all parties", including the mortgagees, and that they did not lose any of their rights by a course of action which they could not prevent.

It is my conclusion, therefore, that the order of this court dated September 10, 1934, directing that the rentals and income from the various properties should be kept segregated, the obedience to that order by the trustee, and the petitions of the respective mortgagees to have those rentals kept separate for their benefit, operated as a sufficient sequestration of those rentals to preserve the rights of the mortgagees in them. Had there been appointed a separate receiver for each apartment house to hold possession or collect the rents for a particular [74] mortgagee, the sufficiency of the sequestration would be readily apparent, and I think the same result could be and was obtained by the appointment of a single trustee to handle all of the properties with a segregation of the income and expenses of each of them. I think the course taken was an orderly one which, as intended, protected the rights of all parties during the interval when the debtors were trying to work out a reorganization.

Substantially the same ultimate result will be reached by another line of reasoning. While the trustee was in possession of the mortgaged properties and operating the several apartment houses, he was required to pay, as a part of the operating

expenses, the taxes on the properties which accrued during that period. As said in *Re Humeston* (C. C. A. 2d) 83 Fed.(2d) 187, 189:

“Such taxes as fell due during the period of the trustee’s occupation were part of the expenses of that occupation and should be borne by the estate. *Michigan v. Michigan Trust Co.*, 286 U. S. 334, 52 S. Ct. 512, 76 L. Ed. 1136; *MacGregor v. Johnson-Cowdin-Emmerich, Inc.*, 39 F.(2d) 574, 576 (C. C. A. 2); *Central Vermont R. Co. v. Marsch*, 59 F.(2d) 59 (C. C. A. 1); *Prudential Ins. Co. v. Liberdar Holding Corporation*, supra, 74 F.(2d) 50. This is not contrary to our decision in *Re Kings County Real Estate Corporation* (C. C. A.) 67 F.(2d) 895. There, a second mortgagee had got the rents sequestered in his favor, and we held that he might take them without deduction, leaving unpaid even those taxes which accrued during occupation. In this we followed the New York law, *Ranney v. Peyser*, 83 N. Y. 1. The distinction is that a mortgagee who enters or gets a sequestration order does not by that alone embark upon a venture on the land; he is merely collecting his debt. He may indeed, as we suggested, put himself in the same class as the mortgagor, if for instance he delays foreclosure so long that it is reasonable to infer that he is using the land as an independent enterprise; but the sequestration is not enough without more. When on the other hand the

mortgagor's trustee continues the occupation, he necessarily means to exploit it for profit, and the gross returns must pay the running expenses. Thus taxes which became payable between November 1, 1933, and May 21, 1935, must be paid, and not only the entire face of these, but all interest and penalties accumulated upon them. It was the trustee's duty to pay them when they fell due, and the estate must suffer from his failure."

While I do not have before me exact figures whereby the amount of the net rentals received by the trustee from a [75] particular apartment house can be compared with the taxes accruing against that property during the period of the trustee's possession, I surmise that as to most of these properties such taxes will approximate, if they do not exceed, the amount of net rentals collected, after making the deductions therefrom which I find should be made before the rentals are applied for the benefit of the respective mortgagees. If that is true, the other questions discussed above are unimportant and do not affect the ultimate result. I do not think the situation is affected by the fact that the mortgagees, to protect their respective securities, paid these taxes in the first instance instead of asking for an order of the court directing the trustee to pay them. [76]

Specific Conclusions of Law on Claims of
Mortgagees.

Taking up each of the claims of the mortgagees separately, I conclude that:

1. The net rentals and income from the Nordell Apartment property in the hands of the trustee, after making deductions therefrom of (a) amounts representing income from furniture and equipment not covered by the mortgage lien computed on the basis indicated in this report, and (b) five per cent of the gross rentals and income received since September 14, 1934, should be held by the trustee for the benefit of Investors Syndicate to be applied toward the payment of its mortgage above described on that property, subject to the condition hereafter stated in conclusion of law No. 10.

2. The net rentals and income from the Resthaven Apartment property in the hands of the trustee, after making deductions therefrom of (a) amounts representing income from furniture and equipment not covered by the mortgage lien computed on the basis indicated in this report, and (b) five per cent of the gross rentals and income received since September 14, 1934, should be held by the trustee for the benefit of Investors Syndicate to be applied toward the payment of its mortgage above described on that property, subject to the condition hereafter stated in conclusion of law No. 10.

3. The net rentals and income from the Chapman Court Apartment property in the hands of the

trustee, after making deductions therefrom of (a) amounts representing income from furniture and equipment not covered by the mortgage lien computed on the basis indicated in this report, and (b) five per cent of the gross rentals and income received since September 14, 1934, should be held by the trustee for the benefit of Investors Syndicate to be applied toward the payment of its mortgage above [77] described on that property, subject to the condition hereafter stated in conclusion of law No. 10.

4. The net rentals and income from the Duplex Apartment (First) property in the hands of the trustee, after making deductions therefrom of (a) amounts representing income from furniture and equipment not covered by the mortgage lien computed on the basis indicated in this report, and (b) five per cent of the gross rentals and income received since September 14, 1934, should be held by the trustee for the benefit of Investors Syndicate to be applied toward the payment of its mortgage above described on that property, subject to the condition hereafter stated in conclusion of law No. 10.

5. The net rentals and income from the Duplex Apartment (Second) property in the hands of the trustee, after making deductions therefrom of (a) amounts representing income from furniture and equipment not covered by the mortgage lien computed on the basis indicated in this report, and (b) five per cent of the gross rentals and income re-

ceived since September 14, 1934, should be held by the trustee for the benefit of Investors Syndicate to be applied toward the payment of its mortgage above described on that property, subject to the condition hereafter stated in conclusion of law No. 10.

6. The net rentals and income from the Adela Manor property in the hands of the trustee, after making deductions therefrom of (a) amounts representing income from furniture and equipment not covered by the mortgage lien computed on the basis indicated in this report, and (b) five per cent of the gross rentals and income received since September 14, 1934, should be held by the trustee for the benefit of Portland Trust and Savings Bank to be applied toward the payment of its mortgage above described on that property, subject to the condition hereafter stated in conclusion of law No. 10. [78]

7. The net rentals and income from the Charmaine Apartment property in the hands of the trustee, after making deductions therefrom of (a) amounts representing income from furniture and equipment not covered by the mortgage lien computed on the basis indicated in this report, and (b) five per cent of the gross rentals and income received since September 14, 1934, should be held by the trustee for the benefit of Portland Trust and Savings Bank to be applied toward the payment of its mortgage above described on that property, subject to the condition hereafter stated in conclusion of law No. 10.

8. The net rentals and income from the Marvilla Court Apartment property in the hands of the trustee, after making deductions therefrom of (a) amounts representing income from furniture and equipment not covered by the mortgage lien computed on the basis indicated in this report, and (b) five per cent of the gross rentals and income received since September 14, 1934, should be held by the trustee for the benefit of Metropolitan Life Insurance Company to be applied toward the payment of its mortgage above described on that property, subject to the condition hereafter stated in conclusion of law No. 10.

9. The net rentals and income from the Mulnomah Court Apartment property in the hands of the trustee, after making deductions therefrom of (a) amounts representing income from furniture and equipment not covered by the mortgage lien computed on the basis indicated in this report, and (b) five per cent of the gross rentals and income received since September 14, 1934, should be held by the trustee for the benefit of Joseph A. West to be applied toward the payment of his mortgage above described on that property, subject to the condition hereafter stated in conclusion of law No. 10.

10. If upon foreclosure sale of any of the mortgaged properties above mentioned, the foreclosure decree shall be [79] satisfied to such an extent that the deficiency, if any, remaining shall be less than the net rentals and income in the hands of the

trustee and applicable to payment of the mortgage debt, then any overplus of such rentals and income, after paying such deficiency, should be treated as general assets of the debtor's estate and applied toward payment of appropriate expenses of administration and the claims of creditors. [80]

On December 5, 1936, the petitioning and intervening creditors and Ralph A. Coan and S. J. Bischoff, their attorneys, individually duly served and filed herein their exceptions to the report of Roy F. Shields, Special Master, dated November 14, 1936, as follows:

(Title of Court and Cause.) No. B-18784

EXCEPTIONS

of Petitioning and Intervening Creditors and of Ralph A. Coan and S. J. Bischoff to the Findings and Conclusions of Roy F. Shields, Special Master, contained in his report dated November 14, 1936.

Come now the petitioning and intervening creditors in the above entitled proceeding and Ralph A. Coan and S. J. Bischoff, and do hereby make and file herein the following exceptions to the report of Roy F. Shields, Special Master, dated November 14, 1936, as follows:

I.

Except to the "conclusions of law on claims of mortgagees" numbered respectively 1 to 10 inclusive, in so far as the Master holds that the rents

now in the hands of the Trustee herein, which were collected from the properties covered by the mortgages described in said conclusions, should be held by the Trustee for the benefit of the mortgagees, for the reason that the Special Master erred;

(a) In holding that the 1927 amendment to Section 5-112, Oregon Code, authorized the appointment of a receiver of rents and profits of mortgaged premises, and the application of the said rents and profits to the mortgage debt, upon mortgages executed prior to the adoption of the 1927 amendment.

(b) In holding that there was any lawful sequestration of said rents and profits derived from any of the mortgaged properties by lawful receivership or otherwise.

(c) In holding that rents and profits may be sequestered in the absence of any proceeding for the foreclosure of the mortgage lien.

(d) In holding that the order of Judge McNary, dated Sept. 10, 1934, constituted a sequestration of rents and profits from the said mortgaged premises. [81]

(e) In holding that the moneys turned over by John W. Kaste to the Trustee herein were moneys which constituted sequestered rents and profits.

(f) In holding that sequestration of rents could be made for the benefit of the mortgagees who had not submitted themselves to the jurisdiction of the Court but on the contrary appeared herein specially and objected to the jurisdiction of the Court over said mortgagees and the property covered by the several mortgages.

(g) In holding that the Trustee's possession of the mortgaged premises was in law the possession of the mortgagees.

II.

Except to the conclusion of the Special Master in said report in so far as it recommends the allowance of any fees to John W. Kaste and W. B. Shively for services alleged to have been rendered to the bankrupt-debtor in these bankruptcy proceedings, for the reason that there is no evidence in the record and no finding of fact by the Master that the said John W. Kaste and W. B. Shively rendered any services whatsoever of the character for which compensation may be allowed under the Bankruptcy Act, and on the further ground that the record establishes that the only services rendered by the said John W. Kaste and W. B. Shively were in connection with the opposition to an adjudication in bankruptcy and in connection with the abortive plan of reorganization, and none other.

III.

Come now the petitioning and intervening creditors and Ralph A. Coan and S. J. Bischoff and move the Court for an order confirming the said report of the Special Master in all respects other than as excepted to herein.

Dated this 5th day of December, 1936.

RALPH A. COAN

S. J. BISCHOFF

Petitioners, and Attorneys for Petitioning
and Intervening Creditors.

Under dated of June 8, 1938, the Judge of the District Court rendered his opinion as follows, to-wit: [82]

[Title of Court and Cause.]

MEMORANDUM ON APPLICATION OF RENTS
AND PROFITS FROM MORTGAGED PROP-
ERTY

James Alger Fee, District Judge:

The question raised is whether the respective mortgagees of the various parcels or the trustee in bankruptcy shall be entitled to the rents, issues and profits collected from the various parcels of real property under direction of this court. The weight of authority in the federal courts favors award of these moneys to the trustee in bankruptcy. *Re Hotel St. James Co.*, 65 F.(2d) 82 (C. C. A. 9 Cal.); *Dallas Trust & Savings Bank vs. Ledbetter*, 36 F.(2d) 221 (C. C. A. 5 Texas); *In re Brose*, 254 F. 664 (C. C. A. 2). See Note 75 A. L. R. 1526. But since this real property is situate in Oregon, the bankruptcy court must apply the law of that jurisdiction in determining the disposition of rents and profits from the land. *Continental Bank vs. Nineteenth & W. Sts. Corp.*, 79 F.(2d) 284, 285; cf. *Erie Railroad Company vs. Tompkins*, U. S. Sup. Ct. Apr. 25, 1938. The state law is paramount and must be applied even if it conflicts with a contrary doctrine adopted by bankruptcy courts.

The Oregon statute of 1862 provided:

“A mortgage of real property shall not be deemed a conveyance so as to enable the owner of the mortgage to recover possession of the real property without a foreclosure and sale according to law.” L. 1862, Sec. 323, p. 85.

The act of 1862 did not make illegal the mortgage or pledge of rents or profits, nor did it proscribe the entry of the mortgagee or pledgee or a trustee under a trust deed from entering to collect the rents and profits for application in accordance with any document giving a lien. The law did not in terms prevent the courts from [83] appointing receivers to carry out the agreement of the parties as to a pledge of the rents and profits. The enactment specifically denounced, however, the granting of any remedy whereby the mortgagee or his assignee should recover the possession of the real property without foreclosure and sale. However, under this statute it was consistently held up to the time of the amendment thereof in 1927 that the public policy of the state prevented the enforcement of any agreement to mortgage or pledge the rents and profits of real property to the mortgagee and the entry of the latter on the mortgaged premises and the appointment of a receiver by a court for the purpose of enforcing such a pledge, *Teal vs. Walker*, 111 U. S. 242; *Thompson vs. Shirley*, 69 F. 484, D. C. Oregon; *Couper vs. Shirley*, 75 F. 168 (C. C. A. 9 Oregon).

The statute above quoted was amended in 1927 to read as follows:

“A mortgage of real property shall not be deemed a conveyance so as to enable the owner of the mortgage to recover possession of the real property without a foreclosure and sale according to law, provided, that nothing in this act contained shall be construed as any limitation upon the right of the owner of real property to mortgage or pledge the rents and profits thereof, nor as prohibiting the mortgagee or pledgee of such rents and profits, or any trustee under a mortgage or trust deed from entering into possession of any real property, other than farm lands or the homestead of the mortgagor or his successor in interest, for the purpose of operating the same and collecting the rents and profits thereof for application in accordance with the provisions of the mortgage or trust deed or other instrument creating the lien, nor as any limitation upon the power of a court of equity to appoint a receiver to take charge of such real property and collect such rents and profits thereof.” Sec. 5-112, Ore. Code Ann., 1930 Ed.

This proviso is expository upon its face and extremely limited in scope.

The right to pledge or mortgage rents and profits which was not specifically denounced by the original law is now confirmed. The sole remedy distinctly

declared to be in accordance with public policy, however, by the amendment is a receivership established by a court. A receiver must be appointed in a suit. A complaint upon equitable principles to prevent waste on the mortgaged property or [84] for the foreclosure of the mortgage occur most readily as examples of the suit in which such an officer could be appointed. This provisional remedy to enforce a pledge or mortgage of the rents and profits is ancillary in nature to such a main proceeding. This court has, under this statute as amended, appointed a receiver as ancillary to a foreclosure proceeding and applied the rents upon the debt according to the agreement of the parties where there were no intervening claims. *New York Life Insurance Co. vs. Progressive Realty Co.*, No. E-9504, Judgment Roll 18902 (January 7, 1935). Such a remedy has likewise been granted by many trial courts of the state of Oregon, but always ancillary to a main proceeding in equity. The Supreme Court of Oregon has held such an appointment void in one case which may be distinguishable under other grounds. See *State ex rel. Nayberger vs. McDonald*, 128 Or. 684. The extreme caution with which even this remedy is applied is indicative of the strong feeling for the public policy enunciated in the original act.

The amendment also confirms the right of the mortgagee if he can come peaceably in possession to apply the rents and profits in accordance with an agreement with the mortgagor. See *American Trust Co. vs. England*, 84 F.(2d) 352 (C. C. A.

9 Cal.). But the proviso did not change the body of the statute which denies to a mortgagee any remedy for obtaining possession of the mortgaged premises. The mortgagor may still refuse possession, retain the rents and profits, and he will not be liable therefor in accordance with *Teal vs. Walker*, supra. The law is unchanged that the mortgagor still has the right of possession, although a pledge or mortgage of the rents and profits may be enforced strictly in accordance with the statute upon equitable premises if full protection be given to intervening rights. So construed, the proviso is valid since the agreement to assign the rents accruing after default was not illegal when made and since the proviso grants remedies narrowly circumscribed.

These stipulations, therefore, under the law of Oregon, [85] amount only to an equitable assignment of the rents and profits and as such may be applied between the original parties and their respective assignees. No right therein or lien thereon exists until the payments become due and are reduced to possession either by the mortgagee or the receiver of a court. Such an agreement in a real estate mortgage confers no additional lien upon the land.

If the facts in the case at bar be reviewed in the light of the Oregon law, the claims can be determined. None of the mortgagees ever had possession until after sale upon foreclosure of the parcel covered by his respective mortgage. No one of these

mortgages was foreclosed or liquidated in the bankruptcy tribunal. No court in which one of these mortgages was foreclosed appointed a receiver of any of these parcels. If a receiver had been duly appointed by a state court, pursuant to the statute, before the filing of the involuntary proceeding, and collected these rents, not even the trustee in bankruptcy could have prevailed against him. *Duparquet vs. Evans*, 297 U. S. 216. No application was made to the trustee in bankruptcy who was joined as a defendant in these foreclosure suits to turn over possession of the property. The adverse nature of his possession and interest is thus made clear. No application was made to have the trustee abandon the property (see *In re Clark Realty Co.*, 234 F. 576 (C. C. A. 7 Wis.)) or to have the same sold in bankruptcy free and clear of liens. The foreclosures proceeded to sale. The mortgages are thus wiped out. The equities of redemption have been sold by the trustee. All these creditors now have are judgments for deficiency. But none of the mortgagees ever became parties to the bankruptcy proceedings, nor have any filed claims therein for the original debt or upon the deficiency judgment.

No distinction can be drawn in the case of the mortgages held by Portland Trust and Savings Bank where foreclosure was commenced in the state court prior to the filing of the involuntary petition. The state court did not appoint a receiver in that case [86] although petitioned to do so. Instead it recognized the possession of the Guaranty Trust

Company and since it had jurisdiction of the cause and the parties gave a direction to the Guaranty Trust Company in personam to pay the rentals monthly as collected and less an allowance for expenses into court for application upon the agreement. So far as that direction was obeyed it constituted a valid seizure of the rents. But the court did not lay its hand on the res or have possession of the property through a receiver, or otherwise. The possession of the realty by the Guaranty Trust Company was expressly recognized. No lien was thereby established upon rents subsequently accruing or paid. The court could only have enforced the order by contempt proceedings and after the appointment of a trustee in this court who took possession had no power over rents accruing in the future or moneys in the hands of the bankrupt.

Clearly enough, then, the mortgagees did not have any right to the rents, issues or profits under the Oregon law because they did not come into actual possession of the real property nor did they follow the specialized remedy set out in the amendment of 1927 to have the rents, issues and profits set aside for them.

It is contended, however, that since the trustee appointed by this court was in actual possession of the mortgaged premises that he held for the mortgagees. Some federal courts have so decided. *Bindseil vs. Liberty Trust Co.*, 248 F. 112 (C. C. A. 3 N. J.); *Mortgage Loan Co. vs. Livingston*, 45 F. (2d) 28 (C. C. A. 8 Missouri). Even these courts

limit the mortgagee's right to rents accruing after he has made demand for possession and been refused or after he has petitioned the bankruptcy court for sequestration. The law of many states gives the mortgagee a legal right to possession of the realty upon default. These opinions relating to the rents and profits must be read as interpretations of the applicable state law. None of them are more than illustrative when cited here since the Oregon law denies the mortgagee any remedy whereby he can get in [87] possession and gives him only a receivership ancillary to a foreclosure to apply the rents and profits to his theretofore inchoate lien.

In this case, a petition was filed under section 77-B of the bankruptcy act, and the court appointed a trustee for the debtor's property. No mortgagee, before this order of appointment, filed a petition, asking for possession or for sequestration of the rents and profits. The court did direct therein that the accounts of each parcel be kept separate, but did not express any intention of giving any mortgagee an interest therein. It was only sound book-keeping. Under these circumstances, the mortgagees having taken no steps to protect their supposed rights, could not prevail even under the decisions above cited. *In re Brose*, 254 F. 664 (C. C. A. 2 N. Y.). Furthermore, the purpose of section 77-B was to continue the debtor in possession of his property until he could be rehabilitated. 11 U. S. C. A. Sec. 207c,1. It is true the court could appoint a

trustee to hold the property instead of the debtor. This does not change the rationale of the provision. The whole statute contemplates the isolation of the property of the debtor and prevents a struggle of creditors for priority by enjoining all proceedings and the creation of liens and the attaching of other rights until it should be determined whether the debtor might not be rehabilitated. If the mortgage creditors were deprived of remedies during this period, it can only be said that the statute is paramount. Besides, the record indicates that these same creditors played a major part in forcing liquidation by refusal to accept compromise so that the result is not inequitable. Where a dismissal of the proceeding is ordered, it might be equitable to pay the mortgagee for the unwarranted delay, out of the fund in court. See *Florida National Bank of Jacksonville vs. United States*, 87 F.(2d) 896 (C. C. A. 5 Fla.). See also *In re De Tamble*, 88 F.(2d) 893, (C. C. A. 7 Ill.). [88]

After liquidation was ordered, some of the mortgagees renewed or filed petitions for sequestration of the rents and profits. From the time of the first petitions by each mortgagee for sequestration, under some of the federal cases decided upon the foundation of the real property law of another state, a mortgagee had a legal right to the rents and profits. *Mortgage Loan Co. vs. Livingston*, 45 F.(2d) 28 (C. C. A. 8 Missouri). The rationale of these decisions is stated in *Binsdeil vs. Liberty Trust Co.*, 248 F. 112 (C. C. A. 3 N. J.) as follows:

“When bankruptcy cuts off a creditor’s legal remedies, under the exigencies of the debtor’s insolvency, it does not destroy his legal rights in the debt or in its security. * * * equity should protect them in the same measure and preserve to them the same advantages, so far as practicable, that the law gave them before bankruptcy stepped in and interfered with them * * *.”

But in this jurisdiction, the mortgagee, as has been pointed out above, had no legal right and but a tenuous equitable claim, subject to be cut off by other interests. See *Dallas Trust & Savings Bank vs. Ledbetter*, 36 F.(2d) 221 (C. C. A. 5 Texas). In applying the Oregon law relating to real property and the rights and remedies of mortgagees, the bankruptcy court should not improve the position of these creditors and extend to them rights which without the intervention of bankruptcy they would not have possessed. The trustee in bankruptcy, as the representative of the bankrupt, had possession of the realty. 11 U. S. C. A. Sec. 110. The mortgages were not foreclosed in bankruptcy. The bankruptcy court should not be required to sequester rents in the hands of its trustee for the benefit of adverse parties suing the trustee in alien tribunals. The equitable assignments were inchoate. cf. *In re West*, 128 F. 205, 206 (D. C. Oregon); *Sims vs. Jamieson*, 67 F.(2d) 409 (C. C. A. 9 Oregon). The courts in which they were foreclosed did not give the remedy prescribed by the statute and appoint a

receiver. See *In re Brose*, 254 F. 664 (C. C. A. 2 N. Y.). The mortgagees had no right otherwise to collect the rents and profits. Therefore, this court could not [89] sequester the rents and profits for their benefit.

Furthermore, the trustee in bankruptcy was vested as to these properties "with all the rights, remedies and powers of a creditor holding a lien by legal or equitable proceedings thereon", 11 U. S. C. A. Sec. 75, probably from the date of the involuntary petition. See *Isaacs vs. Hobbs*, 282 U. S. 734; see also *Callaghan vs. R. F. C.*, 297 U. S. 464. As the rents accrued, these came into his possession thus as representative of the creditors and subject to the lien imposed by the statute in their favor. The mortgagees only held equitable assignments of these future rents which were not brought to fruition either by actual possession or by payment into the hands of a receiver. The legal and equitable position of the trustee in bankruptcy was, therefore, much stronger than that of the mortgagees.

The decision of the referee is reversed as to this feature. The court retains under advisement the other separate matters contained in the report. [90]

It is further stipulated that the foregoing is an agreed statement under Equity Rule 77 and that same, when filed in the office of the Clerk of the District Court, shall be treated as superseding for the purposes of the appeals herein all parts of the record other than the decree from which the appeal

is taken, and together with such decree shall be copied and certified to the Appellate Court as the record on appeal.

Dated this 27th day of October, 1938.

CHAS. W. REDDING

STEPHEN H. BOYLES

Attorneys for Investors Syndicate,
Appellant

HERBERT SWETT

CRUM & DUSENBERY

Attorneys for Portland Trust and
Savings Bank, Trustee, Appellant

CRUM & DUSENBERY

Attorneys for Metropolitan Life
Insurance Company, Appellant

McCAMANT, THOMPSON,

KING & WOOD

S. J. BISCHOFF and

RALPH A. COAN

Attorneys for Lloyd R. Smith,
Trustee in Bankruptcy, Ap-
pellees.

S. J. BISCHOFF

RALPH A. COAN

Attorneys for Petitioning and
Intervening Creditors and in
propria persona, Appellees.

[91]

The foregoing statement, as prepared and signed by the parties hereto, is hereby approved, and as

filed with the Clerk of the Court herein with the final order of the Court rendered and entered in said case on June 8, 1938, shall be certified to the Appellate Court as the record on appeal in said action.

The question as to whether any allowance should be made from the funds accruing during the bankruptcy proceeding from the mortgaged properties on account of taxes accruing during this period (see 40 to 43 agreed statement of facts) which is suggested as a ground of relief in this proceeding in the Report of the Special Master, was not argued or decided by the court and is specifically reserved for further proceeding.

JAMES ALGER FEE

Judge

[Endorsed]: Filed November 7, 1938. [92]

In the District Court of the United States
for the District of Oregon

No. B-18784

In the Matter of

GUARANTY TRUST COMPANY,

a corporation, and

NATIONAL INVESTMENT COMPANY,

a corporation, its affiliate,

Bankrupts.

ORDER SUSTAINING EXCEPTIONS TO
SPECIAL MASTER'S REPORT DATED
NOVEMBER 14, 1936, FILED NOVEMBER
16, 1936, AND DIRECTING TRUSTEE TO
FILE A REPORT AND ACCOUNTING

This cause coming on for hearing upon the exceptions filed by the petitioning and intervening creditors and Ralph A. Coan and S. J. Bischoff to the Findings and Conclusions of Roy F. Shields, Special Master, contained in his report dated November 14, 1936, which exceptions were directed to the "Conclusions of Law on Claims of Mortgagees", numbered 1 to 10, inclusive, insofar as the Special Master held that the rents now in the hands of the Trustee herein which were collected from the properties covered by the mortgages described in said Findings and Conclusions should be held by the Trustee for the benefit of the mortgagees and disbursed to the mortgagees in accordance with their respective petitions therefor, the intervening and

petitioning creditors and said Ralph A. Coan and S. J. Bischoff appearing herein in support of the said exceptions to said report by Ralph A. Coan and S. J. Bischoff, their attorneys, and the Portland Trust & Savings Bank, mortgagee, appearing herein by Verne Dusenbery and Herbert L. Swett, its attorneys, in opposition to said exceptions, The Investors Syndicate, mortgagee, appearing herein by Stephen H. Boyles, its attorney, in opposition to said exceptions, and Metropolitan Life Insurance Company, mortgagee, appearing herein by Crum & Dusenbery, its attorneys, in opposition to said exceptions, and New York Life Insurance Company, mortgagee, appearing herein by Huntington, Wilson & Huntington, its attorneys, in opposition to said exceptions, the cause was argued to the Court and now being fully advised in the premises,

It is ordered that the exceptions of the petitioning and intervening creditors and of Ralph A. Coan and S. J. Bischoff to the "Conclusions of Law on the Claims of Mortgagees", numbered 1 to 10 inclusive, insofar as the Master [93] holds that the rents now in the hands of the Trustee of the above entitled bankrupt estate which were collected from the properties covered by the mortgages described in the report and Conclusions of Special Master that said rents should be held by the Trustee for the benefit of the mortgagees and that said rents should be disbursed to the mortgagees in accordance with their respective petitions therefor, be and the

same hereby are in all respects sustained and the conclusions and recommendations of the said Special Master in said respects be and the same are hereby overruled; and

It is further ordered that all rents collected by the Trustee in the above entitled proceeding from the real properties which were subject to mortgages and which were collected prior to sale upon foreclosure of the property covered by said mortgages be held and disbursed by the Trustee as a part of the funds available for the payment of expenses of administration and general claims of the estate; and

It is further ordered that the opinion rendered herein under date of May 6, 1938, sustaining exceptions to said Special Master's report, which opinion was on the Court's own motion set aside under date of May 28, 1938, be and the same is hereby ordered to be filed and entered as the opinion of this Court, contemporaneously with this order; and

It is further ordered that the Trustee of the above entitled estate be and he hereby is ordered and directed to file with the Clerk of the Court within twenty days from the date hereof a report of the administration of the above entitled estate, and in making said report the Trustee shall incorporate therein the transactions of the two former trustees as to the receipts and disbursements in connection with the operation of each of the mortgaged apartment houses separately in the manner

provided for in the former orders entered herein, and a separate schedule of all other moneys coming into the hands of the present Trustee, or the former trustees, showing the balance of all moneys on hand; and

It is further ordered that disposition of all other exceptions and motions filed herein with respect to said Special Master's report is hereby reserved until the report of the Trustee is filed herein, at which time the Court will make further decisions with respect to the exceptions and motions remaining [94] undisposed of; and

It is further ordered that all motions filed by the mortgagees to confirm the said Special Master's report insofar as the Special Master recommended that the said rents are to be held for the benefit of the mortgagees be and the same hereby are denied; and

It is further ordered that this order is made without prejudice to the rights, if any there be, of the respective mortgagees to make claim herein for said rentals, or any part thereof, by reason of alleged failure of the Trustee herein to pay accruing taxes out of rents and profits collected, and likewise without prejudice to the rights of the respective mortgagees to make claim herein for reimbursement, out of the rents collected by the Trustee from the mortgaged properties, for taxes paid by the mortgagees upon the respective properties for which mortgages were held. The question of the right, if any there

be, of the said mortgagees to said rentals, or any part thereof, on account of the failure of the Trustee to pay taxes as aforesaid, and likewise the question of the right, if any there be, of the said mortgagees to such reimbursement was not referred to the Special Master and was not before him for consideration. The Court sustained the exceptions to the report of the Special Master on the grounds set out in the opinion filed contemporaneously herewith and did not consider or determine the question as to the right, if any there be, of the mortgagees to reimbursement for money paid by them for taxes or to claim for rentals by reason of the Trustee's failure to pay taxes.

Dated this 8th day of June, 1938.

JAMES ALGER FEE

Judge

[Endorsed]: Filed June 8, 1938. [95]

[Title of District Court and Cause.]

PETITION FOR APPEAL

To the Honorable James Alger Fee, Judge of the United States District Court, District of Oregon:

The Investors Syndicate, Portland Trust and Savings Bank, Trustee, and Metropolitan Life Insurance Company, corporations, your petitioners, because they are aggrieved by the order rendered

and entered in this matter on the 8th day of June, 1938, wherein and whereby the Court sustained the exceptions filed herein to "Conclusions of law on the claims of mortgagees" numbered one to ten inclusive, of the report herein of the Special Master dated November 14, 1936, and held that the rents from mortgaged premises collected by the Trustee in said proceedings which were subject to petitioner's mortgages be held and disbursed by the Trustee as a part of the funds available for the payment of expenses of administration and general claims of the estate, do hereby jointly and severally appeal from said order and the whole thereof to the United States Circuit Court of Appeals for the Ninth Circuit, for the reason specified in the Assignment of Errors which is filed herewith, and [96] petitioners and each of them, respectively pray that their appeal be allowed jointly and severally and that citation issue as provided by law, and that a transcript of record, proceedings and papers upon which said order is based, duly authenticated, may be sent to the United States Circuit Court of Appeals for the Ninth Circuit sitting at San Francisco, California.

Your petitioners further allege that Joseph A. West, co-party in interest under said order by virtue of being a mortgagee claiming rents and profits collected by the Trustee herein as allowed by Conclusion of law No. 9 of said Special Master's Report, has been duly notified and requested to join in this Petition for Appeal but has failed and refused to join therein; wherefore,

Your petitioners further pray that they be granted the right jointly and severally to appeal herein without joining said Joseph A. West as appellant.

And your petitioners further pray that the proper order touching the security to be required of them to perfect said appeal be made.

INVESTORS SYNDICATE

By STEPHEN H. BOYLES

Attorney

PORTLAND TRUST AND

SAVINGS BANK, Trustee

By VERNE DUSENBERY

HERBERT SWETT

Attorneys

METROPOLITAN LIFE INSURANCE COMPANY

By VERNE DUSENBERY

Attorneys

[Endorsed]: Filed June 30, 1938. [97]

[Title of District Court and Cause.]

ASSIGNMENT OF ERRORS

Comes now the Investors Syndicate, Portland Trust and Savings Bank, Trustee, and Metropolitan Life Insurance Company, appellants, and jointly and severally file the following assignment of errors on appeal from the order of this court rendered and entered on the 8th day of June, 1938, in Cause No. B-18784.

1. That the Court erred in sustaining the exceptions of the petitioning and intervening creditors and of Ralph A. Coan and S. J. Bischoff to Conclusions of Law numbered one to five inclusive of the Special Master's Report dated November 14, 1936, wherein respectively the Master found that the net rentals and income from the Nordell Apartment, Resthaven Apartment, Chapman Court Apartment, Duplex Apartment (First) and Duplex Apartment (Second), in the hands of the Trustee, after making deductions therefrom of amounts representing (a) reasonable furniture rental, and (b) property management charge, should be held by the Trustee for the benefit of the Investors Syndicate to be applied toward the payment of its respective mortgages on said respective apartment properties, but limiting recovery in [98] the event of foreclosure sale to the amount of deficiency after said sale.

2. That the court erred in holding that all rentals collected by the Trustee in the above proceeding from the Nordell Apartment, Resthaven Apartment, Chapman Court Apartment, Duplex Apartment (First) and Duplex Apartment (Second), upon which the appellant, Investors Syndicate, held mortgages and which were collected prior to sale upon foreclosure of the property covered by said mortgages respectively, should be held and disbursed by said Trustee as a part of the funds available for the payment of expenses of administration and claims of the estate.

3. That the Court erred in sustaining the exceptions of the petitioning and intervening creditors and of Ralph A. Coan and S. J. Bischoff to Conclusions of law numbered six and seven of the Special Master's Report dated November 14, 1936 wherein the Master found and recommended that the net rentals and income from the Adele Manor and the Charmaine Apartment, in the hands of the Trustee, after making deductions therefrom of amounts representing (a) reasonable furniture rental, and (b) property management charge, should be held by the Trustee for the benefit of the Portland Trust and Savings Bank to be applied toward the payment of its respective mortgages on said respective apartment properties, but limiting recovery in the event of foreclosure sale to the amount of deficiency after said sale.

4. That the Court erred in holding that all rentals collected by the Trustee in the above proceeding from the Adele Manor and the Charmaine Apartment, upon which the appellant Portland Trust and Savings Bank held mortgages and which were collected prior to sale upon foreclosure of the property covered by said mortgages respectively, should be held and disbursed by said Trustee as a part of the funds available for the payment of expenses of administration and claims of the estate.

5. That the Court erred in sustaining the exceptions of the petitioning and intervening creditors and of Ralph A. Coan and S. J. Bischoff to

Conclusion of law numbered eight of the Special Master's Report dated November 14, 1936 wherein the Master found that the net rentals and income from the Maravilla Court Apartment, in the hands of the Trustee, after making [99] deductions therefrom of amounts representing (a) reasonable furniture rental, and (b) property management charge, should be held by the Trustee for the benefit of the Metropolitan Life Insurance Company to be applied toward the payment of its mortgage on said apartment property, but limiting recovery in the event of foreclosure sale to the amount of deficiency after said sale.

6. That the Court erred in holding that all rentals collected by the Trustee in the above proceeding from the Maravilla Court Apartment, upon which the appellant, Metropolitan Life Insurance Company, held a mortgage and which was collected prior to sale upon foreclosure of the property covered by said mortgage, should be held and disbursed by said Trustee as a part of the funds available for the payment of expenses of administration and claims of the estate.

Wherefore, the appellants jointly and severally pray that the aforesaid order of the District Court of the United States for the District of Oregon, entered June 8, 1938, be reversed, and that a decree be entered sustaining and confirming the Conclusions of law numbered one to eight inclusive and

No. 10 of the Special Master's Report dated November 14th, 1936.

STEPHEN H. BOYLES

Attorney for Investors Syndicate

VERNE DUSENBERRY

HERBERT SWETT

Attorneys for Portland Trust

and Savings Bank, Trustee

VERNE DUSENBERRY

Attorneys for Metropolitan Life

Insurance Company

[Endorsed]: Filed June 30, 1938. [100]

[Title of District Court and Cause.]

NOTICE TO JOSEPH A. WEST

To Joseph A. West:

You are hereby notified that the undersigned have filed their Petition for Appeal, a certified copy of which is hereto annexed and made a part hereof, from order of the above entitled court dated June 8th, 1938, sustaining exceptions to the Special Master's Report dated November 14th, 1936. You are hereby requested to join the undersigned in petition for said appeal in the above cause on or before the first day of July, 1938, at 10 o'clock A. M., in default of which you are hereby notified that the undersigned will move this court at the United States Court House in the City of Portland, at 10

o'clock A. M. on the first day of July, 1938, or as soon thereafter as counsel can be heard, for an order of severance for the purpose of said appeal in the above cause to the United States Circuit Court of Appeals for the Ninth Circuit.

INVESTORS SYNDICATE

By STEPHEN H. BOYLES

Atty.

PORTLAND TRUST AND

SAVINGS BANK, Trustee

By VERNE DUSENBERY

HERBERT SWETT

Attys.

METROPOLITAN LIFE INSURANCE COMPANY

By VERNE DUSENBERY

Attys.

Service of the foregoing Notice is hereby accepted and copy received this 28th day of June, 1938, at Portland, Oregon.

W. M. HUNTINGTON

Attorney for Joseph A. West

[Endorsed]: Filed June 30, 1938. [101]

[Title of District Court and Cause.]

ORDER ALLOWING APEAL

Upon consideration of the petition of the Investors Syndicate, Portland Trust and Savings Bank, Trustee, and the Metropolitan Life Insurance Com-

pany, for appeal from order entered herein June 8th, 1938, sustaining exceptions to "Conclusions of law on the claims of mortgagees" numbered one to ten inclusive of the report herein of the Special Master, dated November 14, 1936, by which order of this court, dated June 8, 1938, it was held that the rents from mortgaged premises collected by the Trustee in said proceedings which were subject to the mortgages of said petitioners shall be held and disbursed by the Trustee as a part of the funds available for the payment of expenses of administration and general claims of the estate.

And upon consideration of the assignment of errors intended to be urged by said petitioners; and,

It further appearing that Joseph A. West, co-party in interest with said petitioners under said order by reason of being a mortgagee claiming [102] rents and profits collected by the Trustee herein as allowed by Conclusion of law No. 9 of the Special Master's Report above referred to, has been duly notified and requested by said petitioners to join in said Petition for Appeal but has failed and refused to join therein, and the Court being fully advised,

It is hereby ordered that the appeal of said Investors Syndicate, Portland Trust and Savings Bank, Trustee, and the Metropolitan Life Insurance Company, be and it hereby is allowed jointly and severally, and that they are granted the right to appeal without Joseph A. West and without joining said Joseph A. West as appellant.

It is further ordered that said appellants shall give a good and sufficient appeal cost bond in the sum of \$500.00 conditioned as required by law.

Dated the first day of July, 1938.

JAMES ALGER FEE

Judge of the United States District Court

[Endorsed]: Filed July 1, 1938. [103]

[Title of District Court and Cause.]

BOND FOR COSTS ON APPEAL

Know all men by these presents, that we, Investors Syndicate, Portland Trust and Savings Bank, Trustee, and Metropolitan Life Insurance Company, as Principals, and Commercial Casualty Insurance Co., a corporation, as Surety, are held and firmly bound unto Lloyd R. Smith, Trustee in the Matter of Guaranty Trust Company, a corporation, and National Investment Company, a corporation, its affiliate, Bankrupts, Gesina King, Helen Winsor Johnson, Bert Why and Elsa Strathman, Petitioning Creditors, Mrs. Gow Why, Conrad Bauriedel, Ida Isabell Neilson, George J. and Emma C. Fourier, James T. Jones and Louis Knutson, Intervening Creditors, and Ralph A. Coan and S. J. Bischoff, Appellees, in the above cause, in the sum of \$500.00, to be paid to said Appellees, to which payment well and truly to be made we bind our-

selves, our successors and assigns, jointly and severally by these presents. [104]

Sealed with our seals and dated this 2d day of July, 1938.

Whereas, on the 8th day of June, 1938, in the District Court of the United States, for the District of Oregon, in a proceeding in bankruptcy pending in said Court, No. B-18784, bearing the above title, an order was rendered and entered against the Investors Syndicate, Portland Trust and Savings Bank, Trustee, and Metropolitan Life Insurance Company, and the said Investors Syndicate, Portland Trust and Savings Bank, Trustee, and Metropolitan Life Insurance Company, having obtained an appeal to the United States Circuit Court of Appeals, for the Ninth Circuit, and a Citation, directed to the said Appellees, citing and admonishing them, and each of them, to be and appear at a session of the United States Circuit Court of Appeals, for the Ninth Circuit, to be held in the City of San Francisco, State of California, within thirty days from the date of said Citation.

Now, if said Investors Syndicate, Portland Trust and Savings Bank, Trustee, and Metropolitan Life Insurance Company, and each of them, jointly and severally, shall prosecute their Appeal to effect and answer and pay all costs, if they and each of them fail to make their plea good, then the above obliga-

tion to be void; else to remain in full force and virtue.

Sealed and delivered this 2nd day of July, 1938.

INVESTORS SYNDICATE

By STEPHEN H. BOYLES

Attorney

[Seal]

PORTLAND TRUST AND

SAVINGS BANK, Trustee

By J. W. DeGRAFF,

Vice Pres.

METROPOLITAN LIFE INSURANCE COMPANY

By VERNE DUSENBERY

Attorney

Principals

COMMERCIAL CASUALTY CO.

By M. L. LITTLE

Surety

Approved, this 5th day of July, 1938.

JAMES ALGER FEE

District Judge

[Endorsed]: Filed July 5, 1938. [105]

United States of America,
District of Oregon—ss.

I, G. H. Marsh, Clerk of the District Court of the United States for the District of Oregon, do hereby certify that the foregoing pages numbered from 1 to 106 constitute the transcript of an agreed statement of the case under Equity Rule 77 and of the

decree and papers on appeal in a bankruptcy case pending therein in which the Guaranty Trust Company, a corporation, and National Investment Company, a corporation, its affiliate, are Bankrupts, and Investors Syndicate, Portland Trust and Savings Bank, Trustee, and Metropolitan Life Insurance Company are Appellants, and Lloyd R. Smith, Trustee in the Matter of Guaranty Trust Company, a corporation, and National Investment Company, a corporation, its affiliate, Bankrupts, Gesina King, Helen Winsor Johnson, Bert Why, and Elsa Strathman, Petitioning Creditors, Mrs. Gow Why, Conrad Bauriedel, Ida Isabell Neilson, George J and Emma C. Fourier, James T. Jones and Louis Knutson, Intervening Creditors, and Ralph A. Coan and S. J. Bischoff, are Appellees; that I have compared the foregoing transcript of the said agreed statement of the case under Equity Rule 77 and of said decree and papers on appeal with the original thereof and that each of the same is a full, true, and complete copy of the original thereof as the same appears of record and on file at my office and in my custody.

And I further certify that the cost of the foregoing transcript is \$16.25 and that the same has been paid by the said appellants.

In testimony, I have hereunto set my hand and the seal of said court at Portland, in said district, this 16th day of November, 1938.

[Seal]

G. H. MARSH,

Clerk. [106]

In the United States Circuit Court of Appeals,
for the Ninth Circuit

No. 8881

In the Matter of

GUARANTY TRUST COMPANY, a corpo-
ration, and NATIONAL INVESTMENT
COMPANY, a corporation, its affiliate,
Bankrupts.

INVESTORS SYNDICATE, PORTLAND TRUST
AND SAVINGS BANK, Trustee, and MET-
ROPOLITAN LIFE INSURANCE COM-
PANY,

Appellants,

vs.

LLOYD R. SMITH, Trustee in the Matter of
Guaranty Trust Company, a corporation, and
National Investment Company, a corporation,
its affiliate, Bankrupts, GESINA KING,
HELEN WINSOR JOHNSON, BERT WHY
and ELSA STRATHMAN, Petitioning Cred-
itors, MRS. GOW WHY, CONRAD BAURIE-
DEL, IDA ISABELL NEILSON, GEORGE
J. and EMMA C. FOURIER, JAMES T.
JONES and LOUIS KNUTSON, Intervening
Creditors, and RALPH A. COAN and S. J.
BISCHOFF,

Appellees.

PETITION FOR APPEAL

To the Honorable Judges of the United States
Circuit Court of Appeals, for the Ninth Circuit:

Your petitioners, Investors Syndicate, Portland Trust and Savings Bank, Trustee, and Metropolitan Life Insurance Company, and each of them, jointly and severally, in the above entitled cause respectfully represent:

I.

That heretofore and on the 29th day of June, 1938, your petitioners filed a petition in the United States District Court, for the District of Oregon, for an order granting an appeal to this Court from an order made and entered in the above entitled proceeding by the said United States District Court, for the District of Oregon, on June 8th, 1938, sustaining the exceptions of the petitioning and intervening creditors and Ralph A. Coan and S. J. Bischoff to the Conclusions of Law, numbered one to ten inclusive, of the Special Master's Report, dated November 14th, 1936, wherein the Special Master found and recommended that the net rentals and income from the mortgaged properties in the hands of the Trustee, after deduction for rental value of furniture and property management fee, should be held by the Trustee for the benefit of the respective mortgagees, including your petitioners as such mortgagees, to be applied toward the payment of their mortgages on said properties respectively; and wherein the Court held rents collected by the

Trustee from said mortgaged properties should be held and disbursed by the Trustee as a part of the funds available for the payment of the expenses of the administration and the payment of the general creditors of the estate. By said petition your petitioners further allege that Joseph A. West, co-party in interest under said order by virtue of being a mortgagee claiming rents and profits as allowed by Conclusion of Law numbered Nine of said Special Master's Report, has been duly notified and requested to join in said Appeal but has failed and refused to join therein. A separate Notice was then and there served upon said Joseph A. West to be and appear before the Honorable James Alger Fee, Judge of the United States District Court, for the District of Oregon, on July 1st, 1938, at 10:00 o'clock A. M., to join in said Appeal, and said Notice stated that unless he so joined your petitioners would at said time pray for an order of severance for the purpose of said Appeal. Your petitioners further allege that on July 1st, 1938, they will apply for and secure an order from the Honorable James Alger Fee, Judge of the United States District Court, for the District of Oregon, granting said Appeal and permitting same to be prosecuted without joining Joseph A. West as appellant.

II.

That your petitioners further allege that said Joseph A. West, co-party in interest under said order by virtue of the facts hereinbefore set forth,

has been duly notified and requested to join in this petition for appeal, but has failed to join herein.

III.

That said order of the District Court of the United States, for the District of Oregon, was erroneous and the Court erred in entering said order, and that said order and determination was contrary to the law as more specifically set out in the Assignment of Errors filed herewith.

Wherefore, your petitioners, feeling aggrieved because of said order entered June 8th, 1938, and filed in the above entitled proceeding, jointly and severally petition for an Appeal from said order to the United States Circuit Court of Appeals, for the Ninth Circuit, and pray that said Appeal may be allowed jointly and severally without joining said Joseph A. West as appellant, and that a Citation may be issued and directed to Lloyd R. Smith, Trustee in the Matter of Guaranty Trust Company, a corporation, and National Investment Company, a corporation, its affiliate, Bankrupts, Gesina King, Helen Winsor Johnson, Bert Why and Elsa Strathman, Petitioning Creditors, Mrs. Gow Why, Conrad Bauriedel, Ida Isabell Neilson, George J. and Emma C. Fourier James T. Jones and Louis Knutson, Intervening Creditors, and Ralph A. Coan and S. J. Bischoff, demanding them to appear before the United States Circuit Court of Appeals, for the Ninth Circuit, to do and receive that which may be appurtenant to justice to be done in the premises.

and that a transcript of the record and evidence in said proceedings, duly authenticated, may be transferred to the United States Circuit Court of Appeals, for the Ninth Circuit.

INVESTORS SYNDICATE

By STEPHEN H. BOYLES

Attorney

PORTLAND TRUST AND

SAVINGS BANK, Trustee

By VERNE DUSENBERY

HERBERT SWETT

Attorney

METROPOLITAN LIFE INSURANCE COMPANY

By VERNE DUSENBERY

Attorney

Petitioners

[Endorsed]: Filed July 2, 1938. Paul P. O'Brien, Clerk.

[Title of Circuit Court of Appeals and Cause.]

ASSIGNMENT OF ERRORS

Come now Investors Syndicate, Portland Trust and Savings Bank, Trustee, and Metropolitan Life Insurance Company, appellants, and jointly and severally file the following assignment of errors on appeal from the order of the United States District Court, for the District of Oregon, rendered and entered on the 8th day of June, 1938, in cause No. B-18784:

1. That the Court erred in sustaining the exceptions of the petitioning and intervening creditors and of Ralph A. Coan and S. J. Bischoff to Conclusions of Law numbered one to five inclusive of the Special Master's Report dated November 14th, 1936, wherein respectively the Master found that the net rentals and income from the Nordell Apartment, Resthaven Apartment, Chapman Court Apartment, Duplex Apartment (First) and Duplex Apartment (Second), in the hands of the Trustee, after making deductions therefrom of amounts representing (a) reasonable furniture rental, and (b) property management charge, should be held by the Trustee for the benefit of the Investors Syndicate to be applied toward the payment of its respective mortgages on said respective apartment properties, but limiting recovery in the event of foreclosure sale to the amount of deficiency after said sale.

2. That the court erred in holding that all rentals collected by the Trustee in the above proceeding from the Nordell Apartment, Resthaven Apartment, Chapman Court Apartment, Duplex Apartment (First) and Duplex Apartment (Second), upon which the appellant, Investors Syndicate, held mortgages and which were collected prior to sale upon foreclosure of the property covered by said mortgages respectively, should be held and disbursed by said Trustee as a part of the funds available for the payment of expenses of administration and claims of the estate.

3. That the court erred in sustaining the exceptions of the petitioning and intervening creditors and of Ralph A. Coan and S. J. Bischoff to Conclusions of Law numbered six and seven of the Special Master's Report dated November 14, 1936, wherein the Master found and recommended that the net rentals and income from the Adele Manor and the Charmaine Apartment, in the hands of the Trustee, after making deductions therefrom of amounts representing (a) reasonable furniture rental, and (b) property management charge, should be held by the Trustee for the benefit of the Portland Trust and Savings Bank to be applied toward the payment of its respective mortgages on said respective apartment properties, but limiting recovery in the event of foreclosure sale to the amount of deficiency after said sale.

4. That the Court erred in holding that all rentals collected by the Trustee in the above proceeding from the Adele Manor and the Charmaine Apartment, upon which the appellant Portland Trust and Savings Bank held mortgages and which were collected prior to sale upon foreclosure of the property covered by said mortgages respectively, should be held and disbursed by said Trustee as a part of the funds available for the payment of expenses of administration and claims of the estate.

5. That the Court erred in sustaining the exceptions of the petitioning and intervening creditors and of Ralph A. Coan and S. J. Bischoff to Con-

elusion of Law numbered eight of the Special Master's Report dated November 14, 1936, wherein the Master found that the net rentals and income from the Maravilla Court Apartment, in the hands of the Trustee, after making deductions therefrom of amounts representing (a) reasonable furniture rental, and (b) property management charge, should be held by the Trustee for the benefit of the Metropolitan Life Insurance Company to be applied toward the payment of its mortgage on said apartment property, but limiting recovery in the event of foreclosure sale to the amount of deficiency after said sale.

6. That the Court erred in holding that all rentals collected by the Trustee in the above proceeding from the Maravilla Court Apartment, upon which the appellant, Metropolitan Life Insurance Company, held a mortgage and which was collected prior to sale upon foreclosure of the property covered by said mortgage, should be held and disbursed by said Trustee as a part of the funds available for the payment of expenses of administration and claims of the estate.

Wherefore, the appellants jointly and severally pray that the aforesaid order of the District Court of the United States, for the District of Oregon, entered June 8, 1938, be reversed, and that a decree be entered sustaining and confirming the Conclusions of Law numbered one to eight inclusive and

number ten of the Special Master's Report dated November 14th 1936.

STEPHEN H. BOYLES

Attorney for Investors Syndicate

VERNE DUSENBERY

HERBERT SWETT

Attorneys for Portland Trust
and Savings Bank, Trustee

VERNE DUSENBERY

Attorney for Metropolitan Life
Insurance Company

[Endorsed]: Filed July 2, 1938. Paul P. O'Brien,
Clerk.

[Title of Circuit Court of Appeals and Cause.]

NOTICE TO JOSEPH A. WEST

To Joseph A. West:

You are hereby notified that the undersigned have filed their Petition for Appeal, a certified copy of which is hereto annexed and made a part hereof, from an order of the United States District Court, for the District of Oregon, dated June 8th, 1938, sustaining exceptions to the Special Master's Report dated November 14th, 1936.

You are hereby requested to join the undersigned in petitioning for said Appeal in the above cause on or before the day of July, 1938, at 10:00 o'clock A. M., in default of which you are hereby notified that the undersigned will, and do hereby, move this

Court for an order of severance for the purpose of said Appeal in the above cause from the United States District Court, for the District of Oregon, to the United States Circuit Court of Appeals, for the Ninth Circuit.

INVESTORS SYNDICATE

By STEPHEN H. BOYLES

Attorney

PORTLAND TRUST AND

SAVINGS BANK, Trustee,

By VERNE DUSENBERY

HERBERT SWETT

METROPOLITAN LIFE INSURANCE COMPANY

By VERNE DUSENBERY

Attorney

[Endorsed]: Filed July 2, 1938. Paul P. O'Brien, Clerk.

At a Stated Term, to wit: The October Term A. D. 1937, of the United States Circuit Court of Appeals for the Ninth Circuit, held in the Court Room thereof, in the City and County of San Francisco, in the State of California, on Tuesday the Nineteenth day of July in the year of our Lord one thousand nine hundred and thirty-eight.

Present: Honorable Curtis D. Wilbur, Senior Circuit Judge Presiding, Honorable Francis A. Garrecht, Circuit Judge, Honorable Clifton Mathews, Circuit Judge.

[Title of Cause.]

ORDER ALLOWING APPEAL, ETC.

Upon consideration of the petition of Investors Syndicate, Portland Trust and Savings Bank, Trustee, and Metropolitan Life Insurance Company, for an allowance of appeal herein under section 24(b) of the Bankruptcy Act filed July 2, 1938, and of the assignment of errors filed therewith, and by direction of the Court.

It is ordered that an appeal to the United States Circuit Court of Appeals for the Ninth Circuit, from the order of the District Court of the United States for the District of Oregon, made and entered on the 8th day of June, 1938, sustaining exceptions to conclusions of law numbered one to ten inclusive of the report therein of the Special Master, dated November 14, 1936, be, and the same is hereby allowed, conditioned upon the giving of a cost bond in the sum of Two Hundred and Fifty Dollars (\$250.00) within ten days from date.

It is further ordered that if an appeal in this cause has heretofore been allowed by said District Court, and a cost bond given on such appeal, then no bond for costs need be given on this appeal.

It further appearing that Joseph A. West, co-party in interest with said petitioners-appellants has been duly notified and requested by said petitioners-appellants to join in said petition for appeal, but has failed and refused to join therein, and the Court being fully advised,

It is further ordered that said petitioners and each of them be, and they are hereby jointly and severally granted the right to appeal without joining Joseph A. West as appellant.

[Title of Circuit Court of Appeals and Cause.]

CITATION ON APPEAL

The President of the United States of America
To Lloyd R. Smith, Trustee in the Matter of Guaranty Trust Company, a corporation, and National Investment Company, a corporation, its affiliate, Bankrupts, Gesina King, Helen Winsor Johnson, Bert Why and Elsa Strathman, Petitioning Creditors, Mrs. Gow Why, Conrad Bauriedel, Ida Isabell Neilson, George J. and Emma C. Fourier, James T. Jones and Louis Knutson, Intervening Creditors, and Ralph A. Coan and S. J. Bischoff, and each of you, Greeting:

You are hereby cited and admonished to be and appear at a United States Circuit Court of Appeals, for the Ninth Circuit, to be held at the City of San Francisco, in the State of California, within thirty days from the date hereof, pursuant to an order allowing an appeal, of record in the Clerk's Office of the United States Circuit Court of Appeals, for the Ninth Circuit, wherein Investors Syndicate, Portland Trust and Savings Bank, Trustee, and Metropolitan Life Insurance Company are appellants, and

you are appellees, to show cause, if any there be, why the order dated June 8th, 1938 rendered against the said appellants and sustaining the exceptions to the Special Master's Report on the claims of the appellants as mortgagees to rentals in the hands of the Trustee in Bankruptcy, collected on mortgaged premises, as in the said order allowing appeal mentioned, should not be corrected and why speedy justice should not be done to the parties in that behalf.

Witness, the Honorable Francis A. Garrecht, United States Circuit Judge, for the Ninth Judicial District, this 20th day of July, 1938.

FRANCIS A. GARRECHT

United States Circuit Judge

Service of the within Citation and receipt of a copy thereof, admitted the 22nd day of July, 1938.

McCAMANT, THOMPSON,
KING & WOOD

Attorneys for Lloyd R. Smith,
Trustee in Bankruptcy

BISCHOFF & BISCHOFF

Of Attorneys for Petitioning
and Intervening Creditors
and Appellees other than
Lloyd R. Smith

[Endorsed]: Filed July 2, 1938. Paul P. O'Brien,
Clerk.

[Endorsed]: No. 8881. United States Circuit Court of Appeals for the Ninth Circuit. Investors Syndicate, Portland Trust and Savings Bank, Trustee, and Metropolitan Life Insurance Company, Appellants, vs. Lloyd R. Smith, Trustee in the Matter of Guaranty Trust Company, a corporation, and National Investment Company, a corporation, its affiliate, Bankrupts, Gesina King, Helen Winsor Johnson, Bert Why and Elsa Strathman, Mrs. Gow Why, Conrad Bauriedel, Ida Isabell Neilson, George J and Emma C. Fourier, James T. Jones and Louis Knutson, and Ralph A. Coan and S. J. Bischoff, Appellees. Transcript of Record. Upon Appeal from the District Court of the United States for the District of Oregon.

Filed November 21, 1938.

PAUL P. O'BRIEN,

Clerk of the United States Circuit Court of Appeals
for the Ninth Circuit.



In the United States

Circuit Court of Appeals

For the Ninth Circuit 7

INVESTORS SYNDICATE, PORTLAND TRUST
AND SAVINGS BANK, Trustee, and METRO-
POLITAN LIFE INSURANCE COMPANY,
Appellants,

vs.

LLOYD R. SMITH, Trustee in the Matter of Guar-
anty Trust Company, a corporation, and Na-
tional Investment Company, a corporation, its
affiliate, Bankrupts, GESINA KING, HELEN
WINSOR JOHNSON, BERT WHY and ELSA
STRATHMAN, MRS. GOW WHY, CONRAD
BAURIEDEL, IDA ISABELL NEILSON,
GEORGE J. and EMMA C. FOURIER, JAMES
T. JONES and LOUIS KNUTSON, and RALPH
A. COAN and S. J. BISCHOFF,
Appellees.

BRIEF OF APPELLANTS

Upon Appeal from the District Court of the
United States for the District of Oregon.

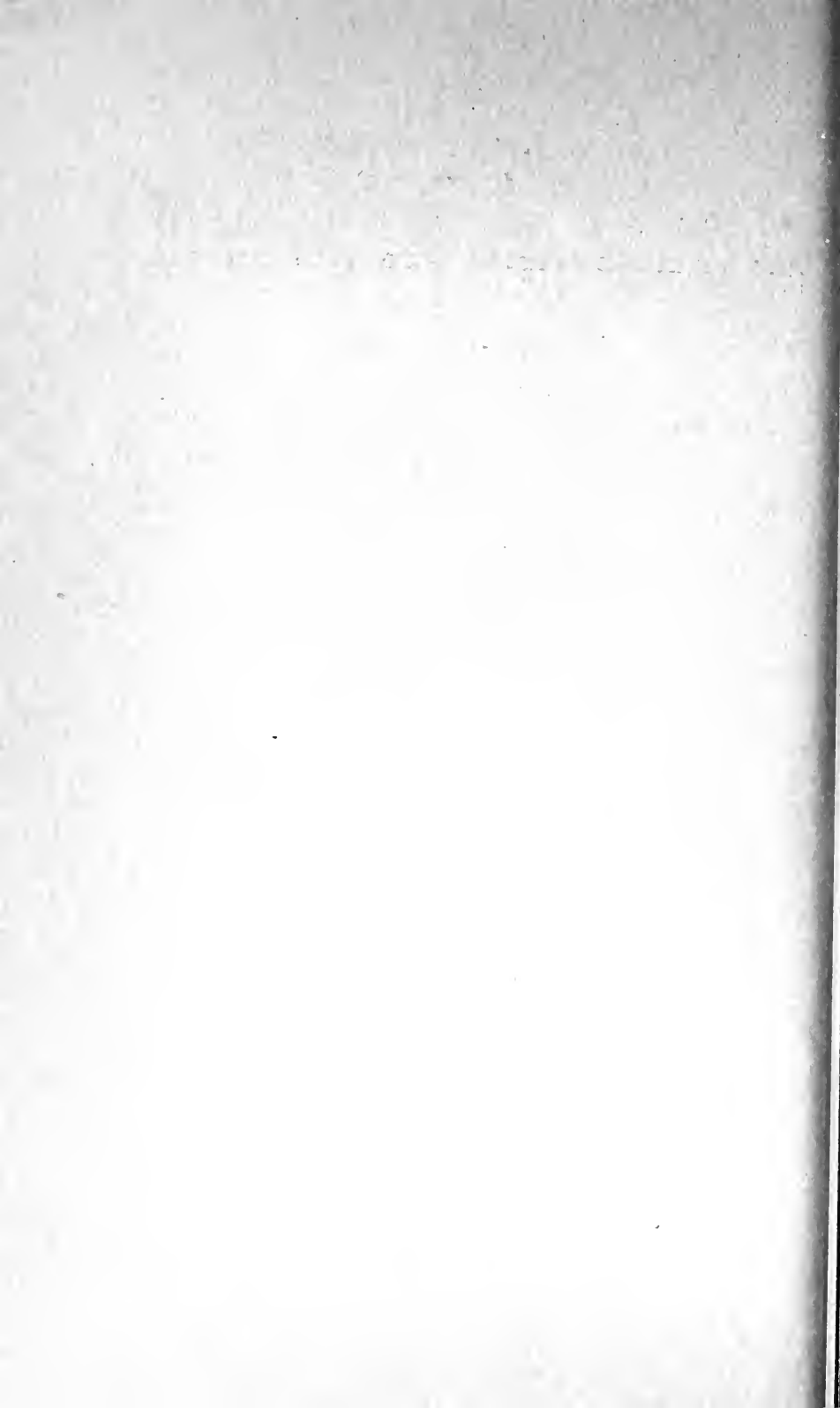
VERNE DUSENBERY,
HERBERT L. SWETT,
STEPHEN H. BOYLES and
CHAS. W. REDDING,
Attorneys for Appellants.

MCCAMANT, THOMPSON, KING & WOOD,
Attorneys for Lloyd R. Smith, Trustee, Appellee.
S. J. BISCHOFF and
RALPH A. COAN,
Attorneys for Intervening Creditors, Appellees.

FILED

JAN 10 1933

PAUL B. ORRIS



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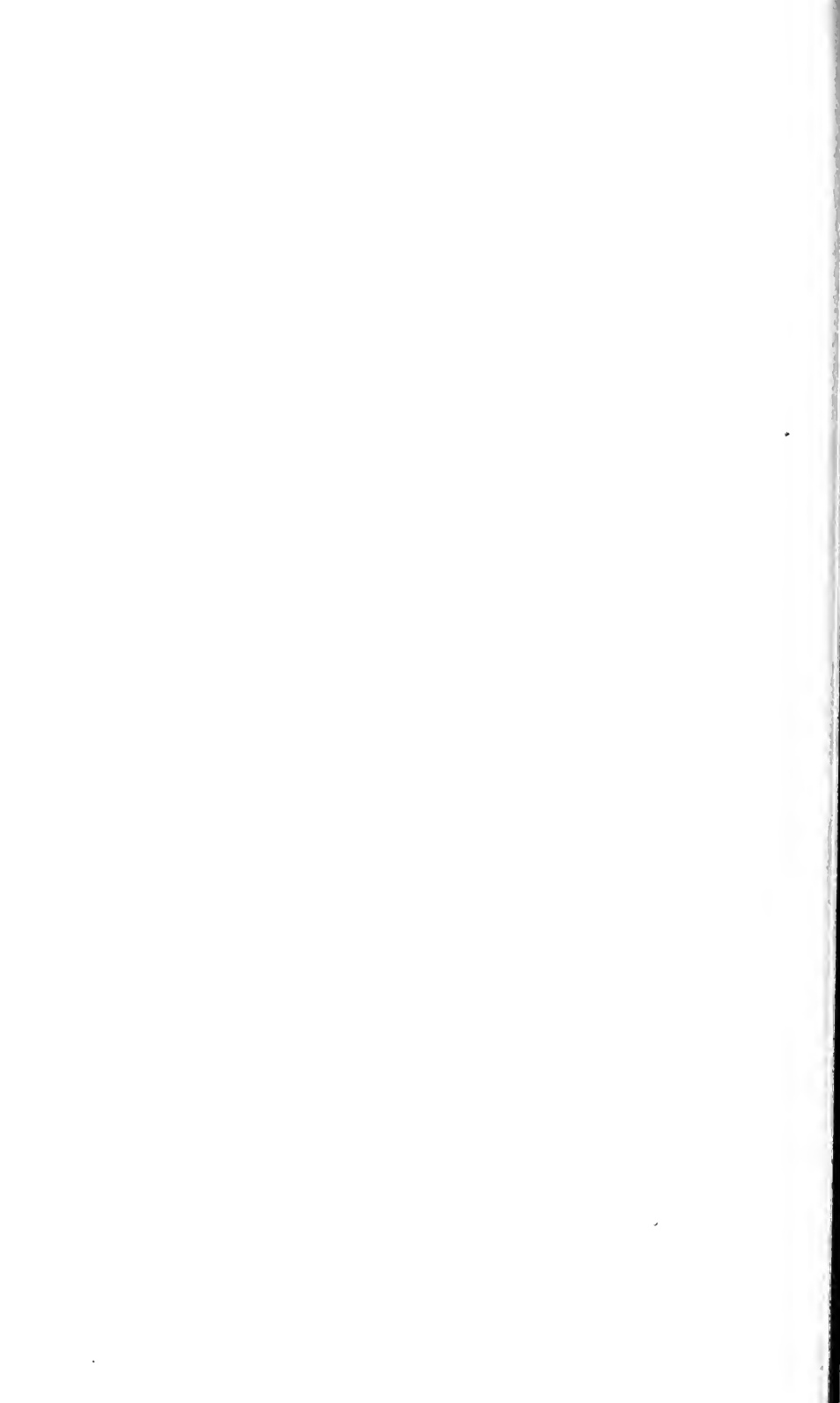
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In the United States

Circuit Court of Appeals

For the Ninth Circuit

•
INVESTORS SYNDICATE, PORTLAND TRUST
AND SAVINGS BANK, Trustee, and METRO-
POLITAN LIFE INSURANCE COMPANY,

Appellants.

vs.

LLOYD R. SMITH, Trustee in the Matter of Guar-
anty Trust Company, a corporation, and Na-
tional Investment Company, a corporation, its
affiliate, Bankrupts, GESINA KING, HELEN
WINSOR JOHNSON, BERT WHY and ELSA
STRATHMAN, MRS. GOW WHY, CONRAD
BAURIEDEL, IDA ISABELL NEILSON,
GEORGE J. and EMMA C. FOURIER, JAMES
T. JONES and LOUIS KNUTSON, and RALPH
A. COAN and S. J. BISCHOFF,

Appellees.

•
BRIEF OF APPELLANTS
•

Upon Appeal from the District Court of the
United States for the District of Oregon.
•

JURISDICTIONAL STATEMENT UNDER
RULE 24 (b)

This case arises on the joint and several appeals
of Portland Trust and Savings Bank, Metropolitan

Life Insurance Company and Investors Syndicate from "Order Sustaining Exceptions to Special Master's Report dated November 14, 1936, filed November 16, 1936, and directing Trustee to file a report and accounting". Such appeals were taken under Sections 24a and 24b of the Bankruptcy Act (R.* 141, 143, 147, 154, 158, 164). Involuntary petition in bankruptcy was filed against bankrupt in the court below January 29, 1934 (R. 5) and jurisdiction taken under Section 77B July 11, 1934 (R. 5), pursuant to petition filed by the alleged bankrupt by way of supplemental answer to the involuntary proceedings. Appellants by petitions filed in the District Court (R. 16, 28, 35) as mortgagees holding separate mortgages on various apartment houses, title to which was vested in the debtor, claimed rents and profits collected by the Trustee during the course of the 77B proceedings. Such petitions were referred to a Special Master (R. 63) whose report sustaining appellants' petitions was filed with the District Court (R. 71). Exceptions to the report were filed by Ralph A. Coan and S. J. Bischoff in their own behalf and as attorneys for the creditors who filed the involuntary petition in bankruptcy, and for the intervening creditors who appeared in support of such involuntary petition (R. 121). Order sustaining such exceptions was entered by the District Court (R. 137) being the order herein appealed from.

* For brevity the Transcript of Record will be referred to herein as "R".

STATEMENT OF THE CASE

This case comes up under agreed statement of the case under Equity Rule 77 (R. 5). The case involves the question as to the rights of mortgagees to rents and profits after bankruptcy has supervened before actual possession has been taken by the mortgagees, timely application for sequestration of the rents and profits having been made by each of the mortgagees. Each of the mortgagees, Portland Trust and Savings Bank, Metropolitan Life Insurance Company and Investors Syndicate, claims under separate mortgages. The order appealed from denied the relief prayed for by the mortgagees on the broad ground that under the Oregon law a mortgagee is not entitled to rents and profits unless actual possession be taken or unless a receiver be appointed prior to bankruptcy. All of the appellants contend herein that their prompt and repeated demands in the bankruptcy court for application of the rents and profits to the mortgage debts constituted the equivalent of possession or a receivership outside of bankruptcy and so entitled them to accruing rents. Portland Trust and Savings Bank contends further under special facts applicable to it that proceedings in foreclosure prior to bankruptcy were such as to amount to a sequestration of the rents and profits.

All of the mortgages here involved were in de-

fault prior to bankruptcy* (R. 8, 19-20, 30, 39, 60). This default extended not only to principal and interest, but taxes were delinquent and unpaid for several years preceding bankruptcy and the properties were in a state of waste and disrepair (R. 68, 69). The amount due on each of the mortgages was in excess of the value thereof at the time concerned (R. 69). All of the mortgages expressly mortgaged and assigned as a part of the security the rents, issues and profits, and contained provisions for assignment of rents (R. 26, 35, 49, 54-60), and for appointment of receiver in the event of foreclosure (R. 26, 35, 49, 54-60). Furthermore, Investors Syndicate held separate assignments of rentals on three of its mortgaged premises in addition to the mortgages thereon (R. 54). All of the mortgages were duly and promptly recorded (R. 27, 35, 60).

Certain special facts relate to Portland Trust & Savings Bank, and it will clarify matters at this stage to state those facts, and later describe how the questions on appeal arise as to the other defendants.

Portland Trust and Savings Bank (hereinafter sometimes called Bank) several months prior to bankruptcy, to-wit, on August 2, 1933, instituted separate foreclosure suits in the Circuit Court of Multnomah County, Oregon, on two mortgages held

* The petitions of appellants (R. 19, 30, 39) alleged such defaults. The agreed statement herein shows that at the hearings such allegations were admitted to be true (R. 60, 65).

by it on apartment houses, legal title to which was in bankrupt (R. 8). These foreclosures were for the full amount of principal and interest and it appeared that no taxes had been paid since 1929 (R. 8). Plaintiff applied in each of these causes for the appointment of a receiver, but in lieu of the appointment of a receiver the court entered an order reciting that

“the interest of all parties to said suit may be protected by requiring the defendant * * * to file in this court during the pendency of this suit, verified monthly accounts showing all money received and all disbursements made in the operation of said apartment houses and to pay the net income from said property into court to be disposed of according to the further order of the court and that the necessity of a receiver may be thereby dispensed with” (R. 9-10).

The court further ordered that Guaranty Trust Company serve and file monthly a verified account or report covering the operation of the apartment house involved in each suit

“showing all rentals and other income received from said apartment house and all disbursements made on account thereof during said accounting period; and that said Guaranty Trust Company, at the time of filing said account and report, pay into the Court the net income derived from said mortgaged premises during said accounting period, *to be held as a part of the security for said mortgage indebtedness* and to be applied according to the further orders of the Court” (R. 10). (Italics ours.)

This order was dated August 10, 1933, and was thereafter modified by permitting a 20% deduction as compensation for use of furniture owned by the bankrupt.

Guaranty Trust Company filed in the state court monthly statements in compliance with said orders and paid to the Clerk of the Court the net rentals computed as aforesaid. None of these moneys ever came under the jurisdiction of the bankruptcy court, and are not involved in this appeal (R. 11).

The involuntary petition herein was filed January 29, 1934, being succeeded by 77B proceedings instituted by supplemental answer filed July 11, 1934 (R. 5). On January 31, 1934, the District Court ordered a stay of all proceedings against the alleged bankrupt (R. 11) but on April 25, 1934, on motion of Guaranty Trust Company, the District Court **modified that order by permitting the alleged bankrupt to comply with the order of the state court in the foreclosure proceedings above described requiring the alleged bankrupt to pay into the state court monthly the net rentals as before described.** The District Court order specifically permitted the parties to said foreclosure suits in the state court to proceed therewith (R. 11-12). Accordingly, the alleged bankrupt continued to pay the net rentals to the state court until the month of June, 1934 (R. 11).

Upon institution of 77B proceedings June 11,

1934,* the bankrupt continued to make monthly reports and delivered same to John W. Kaste, its counsel. Kaste, being uncertain to whom the funds belonged, retained possession thereof. The Trustee in Bankruptcy did not begin to collect the rentals until September 11, 1934, and thereupon proceeded, and continued to collect same (R. 12). The moneys previously accumulated in Kaste's hands were later paid to the Trustee and are now held by him (R. 13).

All moneys collected by the Trustee from the properties mortgaged to the Bank have at all times been and still are held in a separate bank account and the Trustee now holds certificates of deposit of the Bank of California in the amount of \$7,709.00 representing such rentals (R. 13). Such fund was referred to by the opposing parties herein and counsel as a "trust fund" in testimony at the hearing herein (R. 14-15).

All of the appellants, Investors Syndicate, Portland Trust and Savings Bank, and Metropolitan Life Insurance Company, took timely and appropriate action to protect and preserve their rights to the rents and profits derived from their respective properties.

* Debtor filed petition in 77b on June 11, 1934, but same was on motion stricken because it should have been presented by supplemental answer, which debtor accordingly filed July 11, 1934, when good faith order was entered *ex parte* (R. 39).

Jurisdiction was taken herein under 77B by an ex-parte order without notice to creditors (R. 6). The first opportunity accorded the appellants and other creditors to participate in the proceeding was on August 2, 1934, when a hearing was held before the Special Master. At that time appellants appeared by their counsel along with other creditors, including the petitioning and intervening creditors who now appear as appellees, and opposed the continuance of the bankrupt in possession (R. 6). At an adjourned hearing before the Special Master appellants asserted their rights as mortgagees, filed written objections to the plan of reorganization proposed by the debtor, and renewed their oral objections to the continuance of the bankrupt in possession of the mortgaged premises (R. 6). Based upon said hearing the Special Master recommended the appointment of a trustee to take possession of the debtor's assets and further recommended "that a separate account should be kept by the trustee of all moneys coming into his hands from the several sources so that the disposition of said funds can ultimately be made in accordance with the determination that the court may hereafter make as to the ownership thereof, *and in particular that separate account be kept of the moneys received from the operation of each of the properties covered by said mortgage*" (R. 7). (Italics ours.)

The Master also recommended that "an order be made and entered herein appointing a trustee of the property, assets and business of the alleged

bankrupt, with instructions that all income, revenue, and receipts that shall come into his hands shall be segregated and handled as above suggested" (R. 7). This report was confirmed by the court by order dated August 13, 1934, in which it was further:

"Ordered that the said trustee will keep separate accounts of all moneys coming into his possession from each of the several properties of the debtor or its said affiliate and that the trustee's accounts shall be kept so that all income and revenues received and expenses incurred in the operation of each of such properties can at all times be ascertained and segregated" (R. 7-8).

Pursuant to the recommendations of the Special Master and the order of court confirming the same, C. W. Twining was appointed trustee on September 10, 1934, and took possession of the debtor's property and assets (R. 8). At all times since, the trustee has complied with the order of court requiring segregation in his accounts of the rents, issues and profits received by him and expenditures made as to each of the mortgaged properties and from time to time has filed such accounts in the bankruptcy court (R. 71).

The appellant, Investors Syndicate, on October 22, 1934, filed in the District Court in this proceeding a petition in which it set forth that it held mortgages on five apartment houses owned by the debtor of which possession had been taken by the trustee in said proceeding, that said mortgages were all in

default, that principal installments were unpaid and interest was greatly in arrears, that taxes were delinquent since 1929, that the properties were in a bad state of repair and that the security was inadequate, and prayed for an order granting petitioner leave to foreclose its mortgages and requiring the trustee in bankruptcy to collect and segregate in the name of Investors Syndicate for application upon its mortgage indebtedness all of the rents and profits which had accrued or would thereafter accrue from the properties upon which Investors Syndicate held mortgages (R. 36).

Appellant Metropolitan Life Insurance Company on October 24, 1934, filed a petition setting forth substantially the same facts with reference to the existence and condition of its mortgage and asked for the same relief as that prayed for by Investors Syndicate.

Portland Trust and Savings Bank served and filed its formal petition for rents and profits under date of February 5, 1935 (R. 16). Such petition contended that the rentals were subject to application for the mortgagee's benefit prior to the bankruptcy proceedings and that such application should be continued by deposit in the state court or otherwise (R. 25). Reference was made in this petition to the fact that throughout the bankruptcy proceedings and continuing until June, 1934, the bankruptcy court had permitted the rentals to be paid by the bankrupt into the state court (R. 23). Refer-

ence was further made to the fact that subsequent thereto, said rentals were paid to Kaste and held by him until such time as the Trustee herein took over the collection of the rentals (R. 23, 24). At the time of the petition Kaste was still holding the rentals collected by him during this intervening period (R. 24).

It was stipulated at the hearing before the Special Master that the facts in all of the petitions of the appellants herein were true with the exception of certain allegations as to the value of the mortgaged properties of Investors Syndicate (R. 60) upon which undisputed evidence was received which showed that the value thereof was less than the mortgage indebtedness (R. 69). Among the allegations so admitted by appellees (R. 60-61) was paragraph VIII of the Bank's petition which reads as follows (R. 24-25):

“That the said John W. Kaste is connected with said foreclosure suits and with this bankruptcy proceeding only in the capacity of attorney at law representing Guaranty Trust Company and National Investment Corporation; that the said John W. Kaste has no right to, interest in, or claim upon said funds, and that the same should be paid into the Circuit Court of the State of Oregon for Multnomah County, pursuant to the terms of said orders of Court. That likewise, the net rentals derived from said mortgaged premises which are now in the possession of said C. W. Twining, as Trustee in Bankruptcy, constitute a part of the security for the mortgages described herein and were duly impounded by orders of Court entered in

said foreclosure suits long prior to the time when this bankruptcy proceeding was instituted, and said funds should be paid into said Circuit Court."

On April 23, 1935, the Special Master filed a report wherein he recommended that the mortgagees be permitted to proceed with foreclosure and that the net proceeds from each mortgaged property be segregated and paid to the holder of each mortgage respectively. No order was made relative to this report (R. 61). On May 21, 1935, Metropolitan again filed petition for leave to foreclose (R. 61-62). On June 3, 1935, Investors Syndicate filed a similar petition and on June 5, 1935, Portland Trust and Savings Bank filed motion for order permitting it to proceed with its state court foreclosures (R. 62).

Accordingly, orders were entered permitting said foreclosures to proceed (R. 62).

On October 9, 1935, an order was entered that reorganization could not be effected, that the bankrupt was insolvent and that it should be liquidated (R. 62). A trustee was appointed for that purpose and the order provided, as had the previous orders, that the trustee was to keep separate accounts of all moneys coming into his possession from each of the mortgaged properties (R. 63). Thereupon the court ordered a reference as to ownership of rents and a hearing was held before Roy F. Shields, Special Master, who in a full and well considered re-

port held in favor of the mortgage creditors.* The uncontradicted evidence before the Special Master was that taxes were delinquent since 1929; that for a considerable period prior to bankruptcy the income from the properties had not been used to pay taxes, interest or other charges; that the debtor ran itself before bankruptcy by using such income, which was practically all the income that the bankrupt had; that during the administration of the Trustee in Bankruptcy herein the bankrupt was in a state of total collapse; that fire insurance was not maintained on the mortgaged properties nor repairs made except those absolutely necessary to make the rooms habitable; and that the condition of the bankrupt became worse as the bankruptcy proceedings continued (R. 68-69). It is further admitted herein that bankrupt was insolvent at the time bankruptcy proceedings commenced; that the involuntary petition was resisted in the hope that 77B would be enacted and that counsel for bankrupt "stalled" the proceedings until the effective date of such Section 77B (R. 68). A reorganization plan was filed as part of the supplemental answer of the debtor wherein it was proposed that the mortgagees scale down their principal 25% and also reduce their interest rate, which proposal was at all times unacceptable to the mortgagees (R. 68). It therefore became at once evident to counsel for bankrupt that the proceedings were hopeless (R.

* The Special Master's Report is quoted in full in the Record (R. 72-121).

68), but the debtor employed additional counsel in the hope that it could convince the mortgagees to cut down their balances. It was finally determined that reorganization was hopeless (R. 68).

The Trustee has complied with the order of court requiring segregation in his accounts of the rents, issues and profits received by him and expenditures made as to each of the mortgaged properties and from time to time has filed such accounts in the bankruptcy court (R. 71).

It is to be noted that the hearing before the Special Master occurred November 20, 1935 (R. 13), but his report was not filed until November, 1936 (R. 71). Exceptions to the report were filed December 5, 1936, and the order sustaining the exceptions was filed June 8, 1938. Owing, therefore, to the great lapse of time between the date of the original hearing and the present date, it is not possible in the present state of the record to present to the court the full facts and details which have transpired since that date with relation to the foreclosures and the amounts collected. Therefore, if the court find on this appeal that appellants are correct in their legal contentions, an accounting will be necessary as to the rents and the mortgagees will, of course, be limited to the amount of the deficiencies on their respective mortgages (R. 70).

The lapse of time since the hearing before the Special Master renders presentation of the case somewhat awkward in that certain facts in which

the court is interested are not in the record because they occurred subsequent to the report. The fact is, and it will simplify matters if appellees so concede in their answering brief, that all of the mortgages here involved were ultimately foreclosed by separate proceedings and deficiencies obtained, and that the money claimed herein by each of the mortgagees is accordingly the amount of such deficiencies with interest.* Likewise, after the hearing before the Special Master, although not appearing in the record herein, the moneys in the hands of the Clerk of the Circuit Court of Multnomah County, Oregon, in the foreclosure suits of Portland Trust and Savings Bank were applied upon the decrees, pursuant to the original order which recited that same were to be deposited with the Clerk of the Court "to be held as a part of the security for said mortgage indebtedness and to be applied according to the further orders of the Court" (R. 10). We assume that counsel will admit these matters, but if not, since further proceedings in the trial court will be had in the event of reversal in order to bring the facts down to date, such later events may then be taken fully into account.

The District Court reserved decision on the question whether failure of the Trustee to pay taxes accruing during the period he collected the rents (R. 66-9) entitles the mortgagees to reimbursement

* Judge Fee's opinion refers to the fact that "the foreclosures proceeded to sale" and that the creditors have deficiency judgments (R. 129).

for taxes paid by the mortgagees for such period (R. 141). This question was considered by the Special Master (R. 114-16). But in deference to the ruling of the trial court that question will not be considered herein. In accordance with the trial court's ruling, all rights based on that issue are reserved for the further consideration of the trial court, if that be necessary.

SPECIFICATION OF ERRORS RELIED UPON

Appellants herein rely upon assigned errors 1, 2, 3, 4, 5 and 6 (R. 144-6, 159-161). The errors assigned are identical in substance and assigned number, as to the appeals both under Section 24a and 24b herein.

ASSIGNMENTS OF ERROR 1 to 6, INCLUSIVE*

The Court erred in holding that rentals collected by the Trustee from the various apartments mortgaged to appellants herein should be held as part of the general estate, available for the payment of expenses of administration and claims of the estate.

* The assignments of error appear verbatim in Appendix, p. A-1. We believe it will lighten the burden of the Court and simplify the argument to consider all the assignments of error together, inasmuch as similar questions of law are presented by all of such assignments. Additional points of law are presented as to assignments of error 3 and 4 relating only to Portland Trust & Savings Bank, but the consideration of the assignments of error relating to the bank require discussion also of matters of law pertaining to the other assignments of error.

The Court erred in sustaining the exceptions of the petitioning and intervening creditors and Messrs. Coan and Bischoff to the Special Master's conclusions of law numbered 1 to 8, inclusive, which held that the respective mortgagees were entitled to such rents and profits after appropriate deduction therefrom for reasonable furniture rental and property management charge.

ARGUMENT*

PRINCIPLES APPLICABLE TO ALL APPELLANTS HEREIN — DEMAND FOR RENTS, OR ORDER OF SEGREGATION, IN BANKRUPTCY COURT SUFFICIENT.

We propose to show that demand by a mortgagee in the bankruptcy court for rents and profits, or an order of segregation by the bankruptcy court, even without such demand, is sufficient to entitle the mortgagee to rents thereafter collected.

All the authorities agree that the bankruptcy court, even in 77b proceedings, takes the bankrupt's assets subject to prior liens, and therefore that where a mortgagee has sequestered the rents and profits, either by actual possession, possession through a receiver, or otherwise, the mortgagee's rights are prior:

* Limitations of space prevent inclusion of "Summary of Argument". However, for the convenience of the court such "Summary of Argument" has been prepared and is included in Appendix, p. B-5.

Duparquet v. Evans, 297 U.S. 216, 222; 80 L. Ed. 591.

Straton v. New, 283 U.S. 318; 75 L. Ed. 1060.

Continental Bank v. 19th & Walnut Corp., 79 F. (2d) 284 (C.C.A. 3rd).

Re Shelburne, 91 F. (2d) 190 (C.C.A. 3d).

Federal Reserve v. Weant, 113 Or. 1.

Petition of Cox, 15 F. (2d) 764.

Thus, in *Duparquet v. Evans*, 297 U.S. 216, 222, 80 L. Ed. 591, the court stated:

“* * *, it is * * common learning that not even a trustee in bankruptcy may override a valid mortgage lien or supersede a receiver who has been put into possession in fulfilment of the mortgage contract. *Straton v. New*, 283 U.S. 318, 322, 327, 75 L. Ed. 1060, 1093, 1098, 51 S. Ct. 465; *Metcalf v. Barker*, 187 U.S. 165, 47 L. Ed. 122, 23 S. Ct. 67; *Lincoln Sav. Bank v. Realty Associates Security Corp.* (C.C.A. 2d), 67 F. (2d) 895; *Re Berdick* (D.C.), 56 F. (2d) 288; *Russell v. Edmondson* (C.C.A. 5th), 50 F. (2d) 175; *Re Brose* (C.C.A. 2d), 254 F. 664; *Carling v. Seymour Lumber Co.* (C.C.A. 5th), 113 F. 483, 491.”

That sequestration prior to bankruptcy would bar the Trustee herein was expressly recognized in the opinion of the court below, citing the case of *American Trust Co. v. England*, 84 F. (2d) 352 (C. C.A. 9). (R. 127-8.)

The contention with which we are met in the present case is that since no receiver was appointed as such by the state court, the mortgagees have forever lost their rights to the rents and profits until such time as they obtain title to the property through

foreclosure. In other words, the contention is that the bankruptcy court alone has jurisdiction where there is no prior receivership, and since there is no method of applying to the bankruptcy court for a receiver of mortgaged property, the mortgagee is without remedy. Such in effect is the holding of the court below (R. 128-9).

This argument, we believe, confuses form with substance. It implies that the bankruptcy court, having sole jurisdiction, holds adversely to all secured creditors and that the latter are utterly without remedy pending such time as foreclosure is permitted and completed.

It is true that the trustee in bankruptcy is entitled to possession of all assets theretofore in possession of the bankrupt: *Isaacs v. Hobbs*, 282 U.S. 734. However, the very fact that the trustee has paramount title and possession, exclusive of all other courts, imposes upon the bankruptcy court the duty to deal fairly with those assets as to all creditors, both secured and unsecured. This has been recognized repeatedly by the courts.

MORTGAGEE IS ENTITLED TO RENTS AND PROFITS UPON TAKING APPROPRIATE ACTION IN THE BANKRUPTCY COURT.

It is well settled in this Circuit that a mortgagee is entitled to the rents and profits from the date of application therefor to the bankruptcy court: *American Trust Co. v. England*, 84 F. (2d) 352 (C.

C.A. 9) ; *Re Hotel St. James Co.*, 65 F. (2d) 82 (C. C.A. 9).

We respectfully submit that there is an entire misconception in the opinion of the court below as to the holdings of these two cases. The court below cited the *St. James* case for the proposition that the weight of authority favors the award of rents and profits to the trustee (R. 124) ; and cited the *England* case for the proposition that the mortgagee is entitled to the rents and profits if he comes peaceably into possession.

The fact is that both the *St. James* case and the *England* case stand for the proposition that a mortgagee, who has *not* come into possession, nevertheless is entitled to the rents and profits from and after the date of application therefor to the bankruptcy court. In fact, as we will demonstrate, all of the decisions permit recovery by the mortgagee under such circumstances, the only dispute in the authorities being that some authorities go to the length of stating that the mortgagee is entitled to the rents and profits from and after the date of adjudication *without* any application to the court. All these authorities will be herein discussed.

In the *St. James* case the rents and profits were awarded to the trustee in bankruptcy solely for the reason that no application for the rents and profits had been made by the mortgagee until after all the rents had been collected and the property had been

sold on foreclosure, there being no prior sequestration of any kind. As stated by the court (p. 84) :

“No petition was addressed to the bankruptcy court to direct the general receiver, or the trustee, to sequester the rents and profits, as in *Mortgage Loan Co. v. Livingston*, *supra*; *no claim to the rents was made until after the sale.*” (Italics ours.)

The court in the *St. James* case disapproved the case of *In re Wakey*, 50 F. (2d) 869 (C.C.A. 7), which held that the mortgagee was entitled to the rents and profits from the date of bankruptcy without the filing of any petition. The reason for such disapproval, however, was that no application for the rents had been made in that case, just as no application was made in the *St. James* case, until after the rents had been collected. It is clear from the language of this court that had such an application been made the mortgagee would have been awarded the rents and profits. Thus, concerning the case of *Mortgage Loan Co. v. Livingston*, 45 F. (2d) 28 (C.C.A. 8), this court in the *St. James* case stated :

“Moreover, immediately upon the appointment of the receiver in bankruptcy, the mortgagee requested sequestration of the rents, to which the receiver assented, and repeatedly thereafter asked leave to continue the enjoined foreclosure.”

In *American Trust Co. v. England*, *supra*, decided by this court, the trustee in bankruptcy of a *third mortgagee* took possession of the mortgaged

property on September 17, 1932, with implied consent, so the court held, of the mortgagor, and proceeded to operate the ranch and collect the rents and profits. On October 13, 1932, the first mortgagee filed a petition in the bankruptcy case for the sale of the property and for an order sequestering the proceeds of the operation thereof. This was denied without prejudice. Thereafter, on January 26, 1933, the referee ordered that the trustee pay the net proceeds to the first mortgagee, or hold in a separate account subject to further order of the court. The trustee adopted the latter course. On July 26, 1933, on supplemental petition of the first mortgagee the trustee was ordered to surrender possession for the purpose of sale, which was done August 12th. The mortgagor was not a party to the proceedings. On July 28, 1933, the mortgagor demanded the sequestered funds from the trustee. On September 14, 1933, the first mortgagee filed a petition therefor and all parties submitted to the jurisdiction of the court. On these facts it was held that the first mortgagee was entitled to the proceeds from October 13, 1932 to August 12, 1933, when possession was surrendered by the bankruptcy court.

This is not a case, as stated in the opinion below (R. 127), where the mortgagee in question came peaceably into possession. The *third* mortgagee came into possession with the consent of the mortgagor, but not the *first* mortgagee. The mort-

gagor claimed adversely to the first mortgagee at all stages. So far as the first mortgagee was concerned, there was no difference in legal contemplation whether the prior possession of the third mortgagee was for the latter's account or for the mortgagor's account. In either case this possession was adverse to the first mortgagee. The case therefore was just the same as if the bankruptcy estate was that of the mortgagor instead of the third mortgagee, the rights of each of which were subject to the prior lien of the first mortgage. From the standpoint of the first mortgagee, adverse possession was vested in the bankruptcy estate, and since the bankruptcy estate had complete jurisdiction of the subject matter, there was nothing that the first mortgagee could do except to submit himself to the jurisdiction of the bankruptcy court by applying for the rents and profits. This he did and he was held entitled from the date of such application. The court stated (p. 356) :

“The demand of the appellant upon the trustee for the sequestration of rents, and the referee's order for the sequestration, is the equivalent of the taking of possession by the appellant under its trust instrument. *Mortgage Loan Co. v. Livingston* (C.C.A. 8), 45 F. (2d) 28.”

The court in the *England* case then enters into a detailed discussion of *Mortgage Loan Co. v. Livingston*, as follows :

“In that case the mortgagees were entitled to possession under the provisions of the mortgage, but the possession was in the hands of a receiver in bankruptcy proceedings. The mortgagees requested the receiver to sequester the income from the mortgaged property from other income of the receivership. The receiver stated that he would so sequester this income. Afterwards, as here, the mortgagees filed a petition for leave to foreclose the mortgage. This was at first denied without prejudice. Thereafter, as in the present case, it was granted. In holding that the mortgagees were entitled to this income remaining in the hands of the receiver, the court said :

“In effect the mortgagees made themselves parties to the bankruptcy proceedings, recognized the receivership, but never acquiesced in an appropriation by him of the rents and issues of the property to the use and benefit of the general creditors, but promptly and persistently insisted that these rents and issues be impounded by the receiver, and either be used in the discharge of the taxes and insurance or be turned over to them. While it is true these mortgagees acquiesced in the collection of these rents and profits by the receiver, they did so on the understanding that they were impounded and would be properly applied or accounted for, and it cannot be said that they ever acquiesced in an appropriation of them by the receiver on behalf of the general creditors. They were, of course, unable to take possession of the property from the receiver, except on an order of court, and the record in this case warrants the conclusion that the receiver was acting not only on behalf of the general creditors, in so far as this property was concerned, but was acting also in behalf of these mortgagees, and he collected and impounded

these pledged rents and issues, keeping them separate from his other accounts for apparently no other purpose than to make them available as a part of the security under this second mortgage. * * * We are of the view that the mortgagees in effect intervened in the receivership proceedings in aid of their proceedings to foreclose, and this intervention operated to charge all of the net income arising from the operation of the property by the receiver with the lien of their mortgage. * * *

“To hold that the mortgagees had a legal right to these rents and issues under the provisions of their mortgage, but that they should be precluded from recovering same because they had not technically pursued a legal remedy is to overlook the fact that the property was in the control of a court of equity, and that equitable remedies commensurate with the legal rights of the parties should be available. To take from the mortgagees the property to which confessedly they are entitled under the pledge provision of their mortgage, and transfer it to the unsecured creditors of the bankrupt, appeals to us as harsh, inequitable, and unwarranted.’ *Mortgage Loan Co. v. Livingston*, supra (C.C.A.), 45 F. (2d) 28, 32, 33, 34.”

The court in the *England* case distinguished the *Hotel St. James* case on the ground that in the latter case no petition was addressed to the bankruptcy court for the sequestration of the rents and profits.

In view of the very complete consideration of the case of *Mortgage Loan Co. v. Livingston* in the opinion of the court in the *England* case, we will not repeat the matters therein quoted. The *Livingston* case is one of the leading cases on this subject.

In the *Livingston* case no possession was taken by or in behalf of the mortgagee prior to bankruptcy, which occurred two days before the foreclosure sale set for June 29, 1927. The receiver in bankruptcy collected the rents until January 16, 1928. Shortly after the receiver took possession the mortgagee addressed a letter to the receiver asking that the accounts be separated and the revenues applied to the mortgage debt. The receiver answered that the revenues would be kept separately. Petition for application of the rentals was not filed until October 24, 1927, but it was held that the mortgagee was entitled to all the rents collected by the receiver, which included rents collected prior to the formal application to the bankruptcy court. This case illustrates that the bankruptcy requirement is that the mortgagee take *some affirmative action* showing his election to claim the rents and profits. The usual method is by application to the bankruptcy court, but in the *Livingston* case the sequestration dated back to the time of the letter to the receiver and the latter's prompt response that the funds collected from the mortgaged property would be kept separately. This situation is to be compared with the present case, where the court on institution of 77b proceedings required the trustee to keep separate all moneys collected from each of the mortgaged properties, and where the Portland Trust & Savings moneys were actually earmarked and set apart in a separate trust bank account.

We have thus far considered cases in the Ninth and Eighth Circuits. We turn now to consideration of cases in other Circuits:

The leading case in the Third Circuit is *Bindseil v. Liberty Trust Co.*, 248 F. 112. In that case it was held that rents collected by the trustee belonged to the mortgagee who filed a petition therefor. The only limitation upon this rule, as stated in the closing words of the opinion, was that the "claim thereto be seasonably asserted". The reasoning of the court in this case is worthy of notice. Judge Woolley, after stating the various remedies available to a mortgagee in different states within the Third Circuit prior to bankruptcy, goes on as follows (p. 114):

"But bankruptcy changes the whole situation, takes from the mortgagor his land and its income, and takes from the mortgagee the legal remedies which, but for bankruptcy, he might pursue in reaching rents arising from the mortgaged premises, and gives him in lieu thereof, only such remedies as may be found in a court of bankruptcy in the equitable administration of the bankrupt's assets.

"When rents from mortgaged premises become bankrupt assets and can no longer be reached by legal process, what constitutes an equitable administration of a law that takes away such process? When bankruptcy cuts off a creditor's legal remedies, under the exigencies of the debtor's insolvency, it does not destroy his legal rights in the debt or in its security. Under the scheme of bankruptcy these are preserved to him; but they are enforced in

a new way, made necessary by the bankrupt's financial collapse. In enforcing creditors' rights in the new way, it appears to us that equity should protect them in the same measure and preserve to them the same advantages, so far as practicable, that the law gave them before bankruptcy stepped in and interfered with them, having regard to their nature, their superiority, their priority. * * * That after insolvency has taken the debtor's property out of his hands, its income or product belongs to the lien creditor, who has thus become its virtual owner; and that such income or product issuing from mortgaged property, should not be diverted from the mortgage creditor who has a lien to general creditors who have no lien.

"This view is not based upon the notion that the mortgage confers a lien on rents, for, of course, it does not; but it is based upon what is conceived to be an equitable adjustment of rights, of which some are obviously superior to others. Such an application of income from encumbered property appears to be not only an equitable but a very practical way of administering bankrupt assets."

The case of *Central Hanover Bank v. Philadelphia R. R. Co.*, 99 F. (2d) 642, decided October 14, 1938, by the Third Circuit, holds pursuant to the same principles that under the extended jurisdiction of the court under 77b it is not even necessary for the mortgagee to file a petition, but he will be entitled to the rents from the date of bankruptcy.

The Fifth Circuit adheres to the same rule. In *Florida Bank v. U. S.*, 87 F. (2d) 896 (C.C.A. 5), 77b proceedings were filed while the mortgagee was

in possession of the mortgaged property. Stay order against pending foreclosure sale was granted by the bankruptcy court against the opposition of the mortgagee, who also petitioned that the rents be sequestered. Thereafter the proceedings were dismissed (in our case a liquidation has been ordered). It was held that the trustee must pay to the mortgagee the rentals in his hands less income taxes.

Re Thomas, also entitled *Dallas Trust v. Ledbetter*, 36 F. (2d) 221 (C.C.A. 5), is cited below as holding that the trustee is entitled to the rents (R. 124). That case, however, in no way departs from the general rule above set forth. In the *Dallas Trust* case the mortgagee did not apply to the bankruptcy court until after the rents had accrued. The contention of the mortgagee was that his rights were automatic and that by posting the notice of sale before bankruptcy he was entitled to the rents without more. As previously stated, the rule in most jurisdictions is that some affirmative action must be taken by the mortgagee to evidence his election. In view of the later case of *Florida Bank v. U. S.*, *supra*, there can be no doubt as to the fact that the rule in the Fifth Circuit is that a mortgagee is entitled upon application (or even without application under 77b).

The court below cited as *contra* the case of *In re Brose*, 254 F. 664 (C.C.A. 2), but that case is entirely consistent with our view and does not depart from the general rule. There a voluntary petition

was filed April 30th. A receiver in bankruptcy was appointed May 2nd, who collected the rents from the mortgaged apartment house. The mortgagee on November 27th sued in the state court and obtained the appointment of a receiver Dec. 1st, which was evidently entered in the bankruptcy court under date of December 10th (see Opinion, p. 668). It was held under the New York rule laid down in the case of *Sullivan v. Rosson*, 223 N.Y. 217, 119 N.E. 405, that the mortgagee acquires no automatic rights to rents upon default but must take affirmative action to claim same. Here the mortgagee asserted no rights in the bankruptcy court until December 10, 1917, when he entered the order of the state court foreclosure receivership. *The significant fact of the case is that the court permitted the mortgagee to recover all rents and profits collected after December 10.* Therefore the *Brose* case is square authority for the proposition that when the mortgagee makes claim to the rents and profits in the bankruptcy court by appropriate petition thereto, he becomes entitled. The United States Supreme Court in the case of *Duparquet v. Evans*, *supra*, cited the *Brose* case in support of the proposition that a trustee in bankruptcy may not override a valid mortgage lien or supersede a receiver who has been put in possession. Of course, the state court receiver in the *Brose* case was not entitled to possession until such time as the bankruptcy court relinquished jurisdiction.

The Second Circuit also decided the case of *Re*

McCrorry Stores, 73 F. (2d) 270. That case did not involve a mortgage, but assignment of future sub-rents as security under a lease. It was held that the lessor was not entitled to sub-rents which accrued during the month in which bankruptcy occurred because, first, the lease provided for assignment of sub-rentals accruing only after default, and there was no default, and second, "the lessor did nothing to assert a claim to them until after the rights of the trustee had attached". Had the lessor asserted his claim before the trustee collected the rents, a different story would have been presented.

It is to be remembered that in 77b proceedings, with which we are here concerned, the bankruptcy court is vested with all the powers which it would have possessed in a general receivership of the debtor's assets: Section 77b (a)*; *Duparquet v. Evans*, *supra*. The receivership rule as recognized and applied by the leading case in Second Circuit is that the receiver holds for secured creditors as well as unsecured and that a mortgagee is entitled to rents and profits upon filing petition therefor in the receivership case: *Prudential Ins. Co. v. Liberdar*, 74 F. (2d) 50 (C.C.A. 2). In that case the receiver filed a petition for the rents on December 15th, and it was held that the mortgagee was entitled from and after that date to all rents collected by the receiver after deduction for taxes. The reasoning of the court was that the mortgagee should not interfere with the possession of the court and

* Quoted, Appendix, p. C-10.

that the receiver should collect the rents and profits for the benefit of whomsoever should be entitled thereto, subject always to the right of the mortgagee to sequestration by appropriate petition. The court said:

“The mortgagee must take steps to perfect his rights, and it ought to be assumed, as it was in *Freedman’s Savings & Trust Co. v. Shepherd*, that the provision is not self-executing and that until he asserts his claim he is content to let the mortgagor receive the earnings of the premises.”

We refer also to the opinion of the court as contained in the report of the Special Master (R. 112-113). It is noteworthy that the court in the *Liberdar* case considered that the applicable statute was analogous to the Oregon statute and that although the mortgagee had no possessory rights, he did have right to the rents upon application therefor. It was expressly held that the possession of the receiver was for the purpose of protecting the rights of all concerned and that the mortgagee “will have its rights protected as fully as though the properties were in its own possession and under its management”.

Another recent Second Circuit case is *Lincoln Bank v. Realty Associates*, 67 F. (2d) 895 (C.C.A. 2), where it was held that the mortgagee was entitled to the rents and profits from and after the date of application. This case was approved in the *Duparquet* case, *supra*.

In re Humeston, 83 F. (2d) 187 (C.C.A. 2), is not to the contrary. There no application was filed until after the rents had been collected, and the opinion of the court clearly shows that had an application been timely filed, the mortgagee would have been entitled to the rents.

The First Circuit likewise awards the rents to the mortgagee from and after the date of application therefor: *Petition of Cox*, 15 F. (2d) 764. There it was contended, as in the opinion below (R. 132-4), that the filing of the involuntary petition in bankruptcy destroyed the mortgagee's right of entry to obtain the rents. The court, however, held that under Section 67d* of the Bankruptcy Act, a mortgagee's lien rights cannot be affected and that the opposite result would be "in the teeth of Section 67d: it would amount to transferring a part of his property to or for the benefit of unsecured creditors".

The Seventh Circuit holds that the trustee is entitled to the rents and profits even without application therefor: *Re Wakey*, 50 F. (2d) 869 (C.C.A. 7). That case was disapproved by the Ninth Circuit in the *Hotel St. James* case, supra, and it was there pointed out that the case conflicted with the previous decision of the Seventh Circuit in the case of *Re Clark Realty Co.*, 234 F. 576 (C.C.A. 7). Inferentially, therefore, this court approved the *Clark* case, which held that the mortgagee was entitled to the rents and profits from the date of application

* Section 67d is quoted, Appendix, p. D-11.

therefor to the bankruptcy court.

The court below, as argued by appellees, held that there was a split of authorities on the question whether a mortgagee may obtain the rents and profits from the bankruptcy court, citing Note, 75 A.L.R. 1526 (R. 124). We believe the foregoing discussion amply shows that all of the circuits agree that a mortgagee is entitled to the rents and profits, the only dispute being as to whether he must make any application therefor. This is expressly recognized in 75 A.L.R., which states the following:

“By the weight of authority it is held that the mortgagor is entitled to rents and profits accruing up to the time the mortgagee enters, or brings a bill to foreclose or enter, and that this right inheres in the mortgagor’s trustee in bankruptcy, and that the latter, *up to the time the mortgagee takes action*, takes the rents and profits for the benefit of the bankrupt’s creditors.” (Italics ours.)

The ordinary “action” by the mortgagee is by application or petition to the bankruptcy court, which is equivalent to an intervention: *American Trust Co. v. England, supra*; *Bindseil v. Liberty Trust, supra*; *Re Tamble, supra*; *Prudential v. Liberdar, supra*. But a formal application is unnecessary, if the circumstances otherwise show a sequestration: *Mortgage Loan v. Livingston, supra*; *Petition of Cox, supra*; *Re Industrial Cold Storage Co.*, 163 F. 390 (D.C., E.D. Pa.).

MORTGAGEE'S RIGHTS UNDER 77B

We have heretofore considered generally the rule of law that a mortgagee is entitled to the rents and profits in the bankruptcy court upon taking appropriate action after bankruptcy. The general rule has been considered from the standpoint of ordinary bankruptcy cases, although to illustrate the rule in various circuits reference was made to some of the cases under Section 77b and Section 74. We propose now to direct the Court's attention to the proposition that there is even more reason under Section 77b to protect the mortgagee than in the ordinary bankruptcy case (see Special Master's report, R. 110-114).

The rule is established in an ordinary general equity receivership that a mortgagee is entitled to the rents and profits by application therefor to the equity court: *Prudential Insurance Co. v. Liberdar*, 74 F. (2d) 50 (C.C.A. 2). The 77b statute itself by its express terms carries over to 77b all the powers of a federal court in a general equity receivership: Section 77b (a).*

The purpose and scope of 77b proceedings are clearly and fully described by Mr. Justice Cardozo in *Duparquet v. Evans*, 297 U.S. 216, 222, 80 L. Ed. 591, wherein the learned justice stated that one of the primary purposes of 77b was to extend the field

* This subdivision of the statute is quoted in Appendix, p. C-10.

formerly occupied by a general equity receivership. Owing to the limitations of an equity receivership, it became necessary by federal legislation to offer ways and means to effect reorganizations despite dissenting security holders, who formerly often established a nuisance value. The method devised by 77b is to hold the debtor's assets substantially intact pending such time as is required to determine whether a reorganization can be effected. Therefore, the power of the bankruptcy court extends to the stay of pending proceedings, such as the state foreclosure suits instituted by Portland Trust & Savings Bank: Sec. 77b (c) 10.* By the express terms of Section 77b (a) the court is vested with and may exercise all the powers which a federal court would have had had it appointed a receiver in equity of the debtor's property by reason of the latter's inability to pay its debts as they mature. In the *Duparquet* case the court carefully defined general equity receivership as compared with a liquidating receivership for purposes of a mortgage foreclosure, in order to exemplify the broad jurisdictional powers of the bankruptcy court under 77b. Since it has already been demonstrated herein (*Prudential v. Liberdar, supra*), that a receiver in an equity general receivership suit holds for the benefit of all creditors, secured and unsecured, and that the mortgagee may therein obtain the rents and profits by merely applying to the court, it follows automatically under 77b (a), as interpreted by Mr.

* Quoted, Appendix, p. E-12.

Justice Cardozo in the *Duparquet* case, that the same rights exist in a 77b proceeding.

Under the statute, all the debtor's assets are in the hands of the court pending determination whether a reorganization can be effected. If the reorganization is effected, a mortgagee's rights of course are protected by the plan of reorganization. If the reorganization cannot be effected, the proceeding is either dismissed or liquidated. Obviously the mortgagee's hands are more firmly tied under Section 77b than in an ordinary bankruptcy proceeding so far as foreclosure is concerned, and it is conceivable that foreclosure may be deferred for many months by reason of the pendency of abortive reorganization proceedings. Indeed, such was the fact in the present case, where it was not until October 9, 1935 (R. 62), that an order of liquidation was entered, being some sixteen months after the 77b proceedings started. In the present case the debtor owned practically no assets other than the mortgaged properties, and in the nature of things it would have been inconsistent for the court to permit the foreclosure of any of the properties until the proceedings were either dismissed or the estate liquidated. Once the court assented to the proposition that there was no equity for the bankrupt estate in the mortgaged properties, by the same token the court admitted that reorganization was impossible, as there were no other assets. The whole purpose of reorganization plan was to scale down the mortgage debts and interest so that the debtor might remain in

possession of the mortgaged properties (R. 68).

Fairness and equity require, where the mortgagee is stayed from proceeding with his normal remedy of foreclosure, that he at least have the protection in the interim of having the rents and profits applied. The rule laid down by the District Court that the mortgagee is powerless and remediless in the interval is so harsh and extreme as to amount to the taking of property without due process of law, particularly in the state of the property here involved.

We can understand why a 77b court would insist that the rents be retained by the trustee until it is determined whether or not reorganization is feasible, but once it is determined that reorganization is impossible and liquidation is ordered, as in the present case, the general creditors should not benefit at the expense of the mortgagee, whose foreclosure rights have been suspended in the meantime.

All the authorities are in accord with the foregoing reasoning:

Re Tamble, 88 F. (2d) 893 (C.C.A. 7), (construing Sec. 74).

Central Hanover Bank v. Philadelphia R. R. Co., *supra*, (C.C.A. 3), (Section 77b).

Florida Bank v. U. S., 87 F. (2d) 896 (C.C.A. 5), (Section 77b).

Re Huff, 24 F. Supp. 565 (D.C., N. D. Ala.), (Section 74).

The foregoing cases hold that the mortgagee is entitled to the rents and profits irrespective of the

filing of any petition therefor. This result we believe to be fair and equitable, in view of the difference between 77b proceedings and ordinary bankruptcy proceedings.

TO DEPRIVE MORTGAGEE OF REMEDY WILL VIOLATE FIFTH AMENDMENT

The cases heretofore cited demonstrate that the bankruptcy court, having complete jurisdiction, must give the mortgagee an equitable remedy similar to that which he would have had had bankruptcy not supervened.

Section 67d* of the Bankruptcy Law protects liens given in good faith for valuable consideration and duly recorded (See R. 60). *Petition of Cor.*, 15 F. (2d) 764. See *Hiscock v. Bank*, 206 U.S. 28, 51 L. Ed. 945. If the statute be so construed, however, as to hold that pendency of 77b proceedings prevents the mortgagee from obtaining rents and profits, although in the absence of bankruptcy he would have been entitled thereto upon appropriate proceedings, we submit that the statute under such construction would be void under the Fifth Amendment as depriving the mortgagee of property without due process of law:

Louisville Bank v. Radford, 295 U.S. 555, 79 L. Ed. 1593.

Northern Pacific v. Boyd, 228 U.S. 482, 57 L. Ed. 931.

* See Appendix, p. D-11.

Horn v. Ross Island Sand & Gravel Co., 88 F. (2d) 64 (C.C.A. 9).

Security Bank v. Rindge, 85 F. (2d) 557, 561; certiorari denied, 299 U.S. 613, 81 L. Ed. 452.

See, also, *Duparquet v. Evans*, *supra*.

In the *Radford* case the Frazier-Lemke Act was held invalid because, although in terms it preserved the rights of the mortgagee, in fact his remedy was so interfered with as in effect substantially to injure his rights. It was held under the severely restricted remedies of that Act that there was effected a "substantial impairment of the security" of the mortgagee.

We submit that the same is true in the present case if it be held that the mortgagee's rights are concluded until foreclosure sale and that he is powerless to obtain the rents and profits collected during bankruptcy, even upon liquidation or dismissal of the 77b proceedings.

In *Horn v. Ross Island* this court said:

"The Supreme Court in *Louisville v. Radford* held that the bankruptcy power is subject to the Fifth Amendment and that under the bankruptcy power Congress cannot authorize the bankruptcy court to take for the benefit of the debtor rights in specific property acquired by the creditor * * *."

In *Security Bank v. Rindge*, *supra*, this court said:

"The right to retain a lien until the debt secured thereby is paid is a substantive property

right which may not be taken from the creditor consistently with the Fifth and Fourteenth Amendments to the Constitution. *Louisville Bank v. Radford*, 295 U.S. 555 * * *."

In the *Rindge* case it was contended that it was inequitable for an assignee of a mortgage who had paid forty cents on the dollar therefor to insist upon payment in full, but the court held that the assignee was entitled to prior lien rights regardless of the price paid for the assignment.

The holdings in the *Radford*, *Ross Island* and *Rindge* cases are to be contrasted to the language of the court below, where it was held that the mortgagees should be penalized because they refused to scale down their security. The court below said:

"If the mortgage creditors were deprived of remedies during this period, it can only be said that the statute is paramount. Besides, the record indicates that these same creditors played a major part in forcing liquidation by refusal to accept compromise so that the result is not inequitable" (R. 132).

The effect of holding that the mortgagees are barred from acquiring the rents and profits upon dismissal or liquidation of 77b proceedings despite application duly made to the bankruptcy court prior thereto, of course would be to club the mortgagees into accepting reorganization plans. The mortgagees would thereby be forced to surrender security rights, knowing that unless they consented to the plan the proceeding would be prolonged and the rents and profits lost to them forever. The court

cannot do indirectly what it cannot do directly. The mortgagees' lien is not to be impaired either directly or indirectly. The Fifth Amendment does not permit any constraint or compulsion upon a mortgagee to surrender security rights under penalty of loss of other security rights, to-wit, the rents and profits.

The injustice of the holding in the present case is magnified when we recall that jurisdiction was taken by the court below on an *ex parte* order without a hearing (R. 6). Had there been a hearing it is certain that the court would never have taken jurisdiction under 77b because of the hopelessness thereof. It is an admitted fact in this case that the debtor was insolvent throughout; that the mortgages were delinquent as to taxes and interest, most of which ran back to 1929; that the debtor's affairs were in a state of total collapse; that it had virtually no income except from the mortgaged properties; that fire insurance was not maintained or repairs made, other than absolutely necessary; also that the condition of the debtor became worse as the bankruptcy proceedings continued; also that the mortgages were worth less than the mortgage indebtedness (R. 68-9). It is further an admitted fact that these proceedings were instituted by the debtor purely for the purpose of inducing the mortgagees to scale down their mortgage debts and the interest rate thereon, which proposals were at all times unacceptable to the mortgagees (R. 68). It was conceded by the debtor's general counsel that the proceedings were hopeless, whereupon the debtor

employed other counsel in the hope that it might be able to persuade the mortgagees to cut down the balances (R. 68).

If there are any equities under these circumstances in anyone other than the mortgagees, we fail to see it. We contend that unless the mortgagees are protected in the rents and profits from and after the date of institution of the 77b proceedings, there is a violation of due process. We contend that the ordinary bankruptcy rule prevailing in the Seventh Circuit under Section 77b, which has been adopted also in the Third and Fifth Circuits as to 77b cases, should be universally applied to all 77b cases which result in a liquidation or dismissal. This is so because 77b proceedings are of a more restrictive nature so far as the mortgagee's remedies are concerned than an ordinary bankruptcy case, and upon such dismissal or liquidation there is more reason than in an ordinary bankruptcy case to award to the mortgagee the rents and profits for which he may have failed to apply. In the present case, however, it is of little moment whether the court adopts the rule that the rents shall be paid from the date of application or from the date that the 77b proceedings were filed. "Date of application" in our case must be considered as being no later than the date of the first meeting of creditors before the Special Master, when all the appellants herein protested continuance of possession in the debtor, as result of which protest a trustee was named with instructions to segregate income.

APPLICATION OF FOREGOING PRINCIPLES TO THE FACTS OF THE PRESENT CASE.

The foregoing authorities establish the proposition that a mortgagee is entitled to rents from mortgaged premises in the possession of a court of bankruptcy from the time of sequestration or from the time when he asserts his claim to them in the bankruptcy proceeding. Leaving for later consideration the added arguments of Portland Trust and Savings Bank based upon its foreclosure suits commenced prior to bankruptcy, let us first consider the facts as to the claims of all three appellants.

A sequestration was made by the bankruptcy court in this proceeding in August, 1934. When the order of good faith under Section 77b was taken *ex parte* on July 11, 1934, the entire matter was referred to Roy F. Shields as Special Master to conduct hearings and make his report to the court (R. 6). Notice was given to creditors and hearings were had before the Special Master on August 2nd and August 13th. At these hearings the appellants appeared by counsel and participated as mortgagees holding mortgages on several parcels of real property (R. 6). The mortgagees opposed the plan of reorganization and orally objected to the continuance of the bankrupt in possession during the pendency of the proceeding. They must also have asserted claims to the rents for the Special Master in his report recommended that a trustee be ap-

pointed, and that he be required to keep separate accounts of the rents received and disbursements made as to each of the properties covered by a mortgage "so that the disposition of said funds can ultimately be made in accordance with the determination that the court may hereafter make as to the ownership thereof" (R. 7). The court confirmed the report of the Special Master and required the trustee to keep such separate accounts (R. 7-8). When the trustee who was first appointed failed to qualify and C. W. Twining was appointed on September 10, 1934, an identical provision for segregation was contained in the order of appointment (R. 8). Likewise when an order of liquidation was entered and H. E. Eakin was appointed as liquidating trustee, October 9, 1935, he was also required to keep separate accounts of and to segregate receipts and disbursements as to each of the several properties of the debtors (R. 62 and 63). The various orders of segregation have been complied with by all trustees in the proceeding and from time to time accounts have been filed herein showing the same (R. 71).

We respectfully submit that this was a sufficient sequestration of the rents and profits on behalf of the mortgagees. Under the authorities no particular form of sequestration is required, and it is not necessary for mortgagees to assert their rights in any particular manner. Any method reasonably calculated to bring to the attention of the

trustee or the court in the bankruptcy proceedings the claim of the mortgagee, seems to be sufficient. A letter addressed to the trustee in bankruptcy was held to be sufficient in *Mortgage Loan Co. vs. Livingston* (8 C.C.A.), 45 Fed. (2d) 28. Here the mortgagees appeared at the first opportunity in the hearing before the Special Master, asserted their rights as mortgagees, and obtained an order that the rents from each of the mortgaged properties be kept separate and apart so that the income could ultimately be disposed of in accordance with the determination of the court as to the ownership thereof. That constituted a setting apart of those funds for the benefit of the mortgagees to be awarded to them upon proper proof that they held valid mortgage liens thereon.

The appellants followed up the original order of sequestration dated August 13, 1934, by filing in the bankruptcy proceeding formal petitions in which they set up their respective mortgages and prayed for leave to foreclose and that the rents be segregated for application upon their mortgage indebtedness. Within approximately a month after possession of the property was taken by the trustee, such petitions were filed on behalf of Investors Syndicate (October 22, 1934) and Metropolitan Life Insurance Company (October 24, 1934).

A similar petition was not filed at that time on behalf of Portland Trust and Savings Bank for the reason that the mortgages of that appellant were

already in process of foreclosure and the rents were being paid over to Kaste by the trustee in bankruptcy for application under the sequestration orders of the state court. After the trustee ceased paying the rents to Kaste, the bank filed a petition on February 5, 1935, for an order requiring both Kaste and the trustee in bankruptcy to pay all rents over to the state court for application on its mortgages, as will be hereinafter more fully shown. Under the authorities cited there can be no question as to the sufficiency of these petitions to entitle the mortgagees to the rents accrued and to accrue in the hands of the trustee in bankruptcy.

PORTLAND TRUST & SAVINGS BANK'S
RIGHTS TO RENTS AND PROFITS
VESTED BEFORE BANKRUPTCY

We have heretofore stated in some detail the special facts relating to Portland Trust (*supra*, pp. 4-6). It becomes necessary at this stage to restate the essential facts as a basis for consideration of the added legal features which entitle the bank to recover.

Portland Trust instituted foreclosure proceedings long before bankruptcy. Such state foreclosure suits were accompanied by petitions for appointment of a Receiver. But the state court chose to impound the rents, by requiring the debtor to pay them into court, instead of by the appointment of a Receiver. This was a mere matter of procedural

machinery and did not alter the fact that the state court took jurisdiction of the rents and profits for the benefit of the mortgagee. The order is quoted in the record (R. 9-10). It requires Guaranty Trust Company on the 12th day of each month to file verified account and return in the state court covering the operation of the apartment houses involved in each of the two foreclosure suits during the preceding month, showing all rentals and other income collected and all disbursements made during said accounting period. It further requires Guaranty Trust Company at said times to "pay into court the net income derived from said mortgaged premises during said accounting period, *to be held as a part of the security for said mortgage indebtedness* and to be applied according to the further orders of the Court". This is not a mere direction to pay the money into court subject to future determination as to whose money it is. The order specifically states that the moneys are "to be held as a part of the security for said mortgage indebtedness". We contend that this order was a *receivership* order. *Hitz v. Jenks*, 123 U. S. 97, 31 L. Ed. 156.

Not only was this order complied with in every particular prior to the bankruptcy proceedings, but it was also complied with subsequent to the bankruptcy proceedings and until the time that 77b petition was filed some four or five months after the original involuntary petition (R. 11). Not only did the bankruptcy court permit the rents to be paid into the state court after the filing of the

involuntary petition, but to eliminate any question of doubt in the matter, an order was entered by the District Court under date of April 25, 1934, specifically stating that "the alleged bankrupt shall not be restrained from complying with the order of the Circuit Court of the State of Oregon, entered in the aforesaid foreclosure proceedings, requiring it to pay into Court monthly the net proceeds derived from the operation of the properties described in the foreclosure proceedings" (R. 11-12). This order further permitted the foreclosure proceedings in the state court to continue. The reason for entry of the order was that shortly after the filing of the involuntary petition, to-wit, January 31, 1934, the District Court had entered a general order staying all pending proceedings (R. 11), and it was therefore necessary to enter a special order exempting Portland Trust from the effect of the general order.

In fact, it was not until September 11, 1934, that the Trustee herein began to collect the rentals from these mortgaged properties. From June to September the rentals were collected by Kaste, attorney for the bankrupt, and were held by him pending further order of the Court (R. 12). An order then issued requiring payment by Kaste to the Trustee (R. 13).

Not only did the District Court expressly recognize the prior lien of the bank to the rents and profits by reason of the order of April 25, 1934,

and the other matters above recited, but same was recognized by other affirmative matters occurring in the 77b proceedings. Thus, at the outset of the 77b proceedings and thereafter upon the appointment of each successor Trustee, the Court required that a separate account be kept of each of the mortgaged properties (R. 7-8). (It is to be remembered that the bankrupt owned nothing of any substance except the mortgaged properties.) Furthermore, not only were the moneys collected from the apartments mortgaged to Portland Trust segregated for bookkeeping purposes, both as to receipts and disbursements, but such rentals were deposited in a trust account at The Bank of California, and ever since have been and are now held in that trust account (R. 13). Furthermore, at the hearing before the Special Master on the petitions herein involved, Messrs. Bischoff and Coan, who appeared as appellees and also as attorneys for other appellees herein, referred to the Portland Trust moneys as constituting a trust fund, as did also the attorneys for the bankrupt (R. 14-15).

Under these circumstances we believe there can be no doubt as to the claim of Portland Trust to the rentals impounded in the trust fund at The Bank of California. (The State Court funds have already been applied, but deficiencies remain—see *supra*, p. 15).

As before stated, all the authorities agree that the bankruptcy court, even in 77b proceedings, takes

the bankrupt's assets subject to prior liens, and therefore that where a mortgagee has sequestered the rents and profits, either by actual possession, possession through a Receiver, or otherwise, the mortgagee's rights are prior.

Duparquet v. Evans, 297 U.S. 216, 222; 80 L. Ed. 591.

Straton v. New, 283 U.S. 318; 75 L. Ed. 1060.

Continental Bank v. 19th & Walnut Corp., 79 F. 284 (C.C.A. 3rd).

Re Shelburne, 91 F. (2d) 190 (C.C.A. 3d).

Federal Reserve v. Weant, 113 Or. 1.

Thus, in *Duparquet v. Evans*, 297 U.S. 216, 222, 80 L. Ed. 591, the court stated:

“* * * It is * * * common learning that not even a trustee in bankruptcy may override a valid mortgage lien or supersede a receiver who has been put into possession in fulfilment of the mortgage contract. *Straton v. New*, 283 U.S. 318, 322, 327, 75 L. Ed. 1060, 1093, 1098, 51 S. Ct. 465; *Metcalf v. Barker*, 187 U.S. 165, 47 L. Ed. 122, 23 S. Ct. 67; *Lincoln Sav. Bank v. Realty Associates Security Corp.* (C.C.A. 2d), 67 F. (2d) 895; *Re Berdick* (D.C.), 56 F. (2d) 288; *Russell v. Edmondson* (C.C.A. 5th), 50 F. (2d) 175; *Re Brose* (C.C.A. 2d), 254 F. 664; *Carling v. Seymour Lumber Co.* (C.C.A. 5th) 113 F. 483, 491.”

That sequestration prior to bankruptcy would bar the Trustee herein, was expressly recognized in the opinion of the court below, citing the case of *American Trust Co. v. England*, 84 F. (2d) 352 (C. C.A. 9), (R. 127-8).

However, it is contended by our opponents that there must have been an actual receivership or actual possession on the part of the mortgagee to bar the bankrupt estate from holding the rents and profits for general creditors. On its face, this is a shocking argument, implying as it does that the form under which the state court takes hold of the rents and profits is determinative of the mortgagee's rights, rather than the substance of what was done by the state court. We believe the following authorities will amply demonstrate that there was a sufficient sequestration prior to the bankruptcy proceedings :

In *Hitz v. Jenks*, 123 U.S. 297; 31 L. Ed. 156, Keyser as receiver of a national bank, sued to enforce a deed by way of mortgage. Mrs. Hitz defended, claiming she was induced to sign with her husband by fraud and also claiming fraudulent alteration. The lower court held for her but that the deeds were valid as against her husband and ordered Keyser to account for rents previously collected and to collect and pay into court all subsequent rents collected. On appeal to the Supreme Court of the District of Columbia this was reversed as to Mrs. Hitz, and Keyser won completely. She then appealed to the United States Supreme Court and claimed among other things that she was entitled to rents paid into court pending the intermediate appeal. She relied, as do appellants in the present case, on *Teal v. Walker*, 111 U.S. 242, 28 L. Ed. 415. Her claim was that the mortgagee

had not been put into possession of the land by her and therefore she was entitled to the rents. The court, however, disposed of this contention as follows :

“The conclusive answer to this argument is that the accruing rents were not received and held by Keyser by virtue of an agreement with Hitz; but the court, through Keyser as its receiver, took possession of these rents in order to preserve them for the party who should ultimately prevail in the suit. When it was afterwards adjudged that the * * * the second deed of trust was valid as against Mrs. Hitz; and the sum obtained for the land at a sale under the power contained in this deed proved insufficient, by more than the whole of the fund in court, to pay the debt of Hitz to Jenks, secured by this deed, it was rightly held that Mrs. Hitz had no right as against Jenks to any part of this fund.”

The appointment of the plaintiff in the case just referred to as the agent of the court to collect the rents and pay them into court as they accrued, is identical with the order which was entered by Judge Lusk in the state foreclosure proceedings here concerned, with the exception that in our case the defendant was required to collect and pay into court, whereas in the Hitz case the plaintiff was so required. In neither case was the appointment designated in the lower court as a “receivership”, but just as the United States Supreme Court deemed that in fact the plaintiff was acting as a receiver for the court, so in fact was Guaranty Trust Company acting as receiver for the court in our case.

Nomenclature is immaterial; the fact is that the collections were made pursuant to court order and that the party collecting in either case would have been in contempt if that order had been disobeyed.

In re Berdick, 56 F. (2d) 288 (D.C., S.D. N.Y.), is to similar effect and is especially worthy of notice inasmuch as it was cited with approval by the United States Supreme Court in the *Duparquet* case, as hereinbefore quoted. In the *Berdick* case foreclosure suit was filed, but to dispense with the appointment of receiver the owner notified the tenants to pay the mortgagee direct, whereupon the latter collected the November rentals. On November 27th bankruptcy occurred. The bankruptcy receiver claimed the rents on the ground that no receiver had been appointed in the foreclosure suit, but the court held for the mortgagee, stating:

“It thus appears that the mortgagee is for all practical purposes in possession of the premises by consent of the mortgagor and is receiving the rents. In the language of the court in *Sullivan v. Rosson*, *supra*, the mortgagee has taken possession of the rents and of the right to them ‘through some mutual arrangement therefor’.
* * * It is quite clear that its rights are superior to those of the receiver in bankruptcy.”

The United States Supreme Court held in *Metcalf v. Barker*, 187 U.S. 165, 47 L. Ed. 122, that in a suit to assert an equitable lien (there a creditor's bill), the judgment related back to the date of the filing of the bill, and that since the date in that case was more than four months before bankruptcy,

the state court jurisdiction was prior and the equitable lien was to be considered as vested from the date of the filing of the bill.

Sequestration is not a technical conception; it is not even necessary that an order of court be entered, as was done in the present case. A stipulation between the parties in a foreclosure proceeding has been held sufficient to amount to sequestration: *Farmers Union v. Sullivan*, 137 Kan. 196, 19 P. (2d) 476; *Hall v. Goldsworthy*, 136 Kan. 247, 14 P. (2d) 659. See 41 C. J. 628.

We contend therefore that there was sufficient sequestration in the state court and that the bankruptcy court was powerless to overcome the prior lien rights vested in the bank to the rents and profits. Furthermore, as previously shown, the bankruptcy court expressly recognized the prior vested rights of the bank and permitted the moneys to be paid into the state court for a considerable time after institution of the bankruptcy proceedings and even after that time segregated the funds and placed them in a separate bank account as a trust fund. Collection of the rents and profits by the Trustee herein was in express recognition of the bank's prior rights. All that the bankrupt estate owned beneficially at any stage of these bankruptcy proceedings was the worthless equity of redemption. Except for the debtor's imposition upon the court in the present case, whereby the court was led to believe that there were equities in the various mort-

gaged properties, the court would never have taken jurisdiction under 77b in the first place, and no rentals would ever have been paid into the hands of the Trustee from the apartments mortgaged to the bank.

Such sequestration was expressly recognized and deferred to by the bankruptcy court, which for several months permitted the rents to be paid into the state court (R. 11-12), and which placed all rents from properties mortgaged to Portland Trust in a special trust account at The Bank of California (R. 13).

MORTGAGEES' REMEDY IN BANKRUPTCY COURT NOT IMPAIRED BY STATE LAW

It is contended by appellees that under the law prevailing in the State of Oregon a mortgagee, unless he takes possession prior to bankruptcy or has a receiver appointed prior to bankruptcy, is utterly without remedy thereafter in the bankruptcy court so far as obtaining the rents and profits is concerned. This argument is predicated on the theory that the claim to the rents and profits under the mortgage agreement is nothing more than an inchoate right and that the lien does not vest until possession is taken by the mortgagee directly or through a receiver, which is ordinarily impossible in a court of bankruptcy.

Appellees' argument concerning the Oregon law is based upon a misinterpretation of the case of

Teal v. Walker, 111 U.S. 242. That case merely held as a matter of common law that so long as the mortgagor has possession he need not account for the rents and the court said that this conclusion was "strengthened" by the Oregon statute as it stood prior to the 1927 amendment. It is clear that the court did not consider that the law in Oregon was different from the general common law on the subject, but on the contrary the Oregon statute merely affirmed the common law. The court's opinion shows clearly that in a proper case a receivership could be granted under the Oregon statute even before the 1927 amendment.

Appellees rely also on the cases of *Thomson vs. Shirley*, 69 F. 484 (D. Or.), and *Couper vs. Shirley*, 75 F. 168, (C.C.A. 9). In the former case the court appointed a receiver under a provision in the mortgage so permitting, but no showing was made by the plaintiff as to any equitable reason why the receivership was necessary. The sole question, therefore, was whether the agreement for the receiver was an enforceable contract obligation. The court held otherwise in the absence of a showing requiring the intervention of a court of equity, such as insecurity or waste, both of which are present in our case. However, the court was careful to point out that it did *not* hold that a receiver would not be appointed on a proper showing, stating:

"The stipulation in the mortgage that upon the mortgagor's default a receiver may be appoint-

ed to take the crops, in no wise enlarges the rights of the mortgagee. *In a proper case a receiver will be appointed without such stipulation.* In no other case should one be appointed, no matter what the parties may agree beforehand. The only exception to the well-established rule which excludes the mortgagee from possession of rents and profits by a receiver is in that class of cases where the value of the property mortgaged is threatened with loss or destruction."

We believe that the court's statement as to the grounds for appointing a receiver were too narrow, but they were not necessary to the opinion in the case because no grounds at all were shown other than the provision in the mortgage.

On appeal the court in the case of *Couper vs. Shirley* affirmed the lower court's decision but considerably modified the language. The court there said:

"It must be borne in mind that the appointment of Couper as a receiver was not made by virtue of any of the established general principles of equity, which, when alleged to exist, would authorize a court of equity to appoint a receiver, but was made solely in pursuance of the stipulation contained in the mortgage. The sole question for our consideration is whether such a stipulation, *of itself*, authorized the court to make the appointment, under the laws of Oregon."

And again:

"It is enough to say that it has been authoritatively settled that, under the provisions of the statutes of Oregon, they have no power to *bind*

the courts, independent of any equitable condition which might be shown to exist, by any stipulation, contract, covenant or agreement contained in the mortgage for the appointment of a trustee or receiver to take charge of the rents, issues and profits of the mortgaged premises pending a foreclosure of the mortgage."

But what application do *Teal v. Walker* and the *Shirley* cases have to our case? The answer is, none whatsoever. This is a bankruptcy case; those were not. In the *Teal* case, as between mortgagor and mortgagee, the latter claimed to be entitled to the rents and profits automatically on default by alleged self-executing provisions of the mortgage. There was no application for sequestration to any forum whatsoever until after the rents and profits had been collected. In the *Shirley* cases, an application was made for appointment of receiver, but no grounds were shown sufficient to justify equitable interposition—the mortgagee relied solely on the clause in the mortgage.

The present is a case where admittedly there was ample ground for the appointment of a receiver, if bankruptcy had not intervened. Waste existed, taxes unpaid for years, the properties permitted to deteriorate, no repairs made, insurance unpaid, income fully applied for the mortgagor's private purposes. The state court had protected Portland Trust by an order tantamount to a receivership (*supra*, p. 48); the other mortgagees had not asked for receivership prior to bankruptcy be-

ed to take the crops, in no wise enlarges the rights of the mortgagee. *In a proper case a receiver will be appointed without such stipulation.* In no other case should one be appointed, no matter what the parties may agree beforehand. The only exception to the well-established rule which excludes the mortgagee from possession of rents and profits by a receiver is in that class of cases where the value of the property mortgaged is threatened with loss or destruction."

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The present is a case where admittedly there was ample ground for the appointment of a receiver, if bankruptcy had not intervened. Waste existed, taxes unpaid for years, the properties permitted to deteriorate, no repairs made, insurance unpaid, income fully applied for the mortgagor's private purposes. The state court had protected Portland Trust by an order tantamount to a receivership (*supra*, p. 48); the other mortgagees had not asked for receivership prior to bankruptcy be-

cause of certain promises that were never fulfilled (R. 42-4). After bankruptcy, timely application is made. The situation thus presented to the bankruptcy court, as contrasted to the situation before the court in the *Teal* case and the *Shirley* case, is that every ground for equitable jurisdiction for appointment of a receiver exists — insecurity of the mortgagee, waste, deterioration and threatened destruction of security value. Under these circumstances, a receiver would clearly have been appointed in the state court. Is the bankruptcy court to be bogged down by the technicality that no application for receiver was made prior to bankruptcy? The answer is contained in the many cases which we have cited from this and other circuits to the effect that the mortgagee will be held entitled in the bankruptcy court upon proper application, or other act of the mortgagee indicating his election. And this is true because now the bankruptcy court is the only forum to which the mortgagee can look. It alone has jurisdiction, and being a court of equity, will apply an equitable remedy that meets the need.

If there were ever any thought that in Oregon under the *Teal* and *Shirley* cases, a mortgagee, in the absence of voluntary surrender of possession by the mortgagor, is not entitled to rents and profits until purchase at sheriff's sale, such misconception is entirely overthrown by the 1927 Amendment to the Oregon statute—Laws 1927, Chap. 310, Sec. 1. Prior to 1927 our statute read:

“A mortgage of real property shall not be deemed a conveyance so as to enable the owner of the mortgage to recover possession of the real property without a foreclosure and sale according to law.”

But in 1927 the following proviso was added:

“Provided, that nothing in this act contained shall be construed as any limitation upon the right of the owner of real property to mortgage or pledge the rents and profits thereof, nor as prohibiting the mortgagee or pledgee of such rents and profits, or any trustee under a mortgage or trust deed from entering into possession of any real property, other than farm lands or the homestead of the mortgagor or his successor in interest, for the purpose of operating the same and collecting the rents and profits thereof for application in accordance with the provisions of the mortgage or trust deed or other instrument creating the lien, nor as any limitation upon the power of a court of equity to appoint a receiver to take charge of such real property and collect such rents and profits thereof.” Or. Code 1930, § 5-112.

Of what importance, then, are the *Shirley* cases, or the *Teal* case, decided before 1927? As we will hereafter show, the 1927 statute did not change this law—it was always true in Oregon that the court through receivership or otherwise would in a proper case apply rents and profits for the benefit of a mortgagee. But because of misconception of the *Teal* and *Shirley* cases, the 1927 Amendment was adopted as an expository statute to make clear the fact that the ordinary common law equitable remedies were available in Oregon and that the provi-

sions of the old statute were never intended to interfere with such common law equitable remedies. (It is again to be noted that the United States Supreme Court in *Teal v. Walker*, held that the old Oregon statute "strengthened" the common law rule that the mortgage is not self-executing as to rents and profits on default — clearly indicating that Oregon is not an exceptional state, but that it conforms to the common law rule. The 1927 Amendment makes it clear that Oregon conforms to the common law rule as to equitable remedies in case of default — application of rents and profits prior to foreclosure sale where equitable grounds exist, as they do in our case.)

Oregon has a general receivership statute reciting the various cases in which receiver may be appointed: Oregon Code 1930, Section 32-702. The statute reads in part as follows:

"A receiver may be appointed by the court in the following cases:

"1. Provisionally, before judgment or decree, on the application of either party, when his right to the property, which is the subject of the action, suit or proceeding, and which is in the possession of an adverse party, is probable, and the property or its rents or profits are in danger of being lost or materially injured or impaired; * *"

The above statute in its reference to "rents or profits" that "are in danger of being lost" to the mortgagee constitutes explicit authority on the part of the court for the appointment of receiver in a

mortgage foreclosure suit, being in this respect a duplication of the 1927 Amendment to Oregon Code 1930, Section 5-112.

As illustrative of the common law rule whereby a court of equity will in a proper case appoint a receiver, or otherwise sequester the rents and profits, we quote from *Freedman's Sav. & T. Co. v. Shepherd*, 127 U.S. 261, 32 L. Ed. 163. There it is said:

“As was said in *Kountze v. Omaha Hotel Co.*, 107 U.S. 395, ‘courts of equity always have the power where the debtor is insolvent, and the mortgaged property is an insufficient security for the debt, and there is good cause to believe that it will be wasted or deteriorated in the hands of the mortgagor, as by cutting of timber, suffering dilapidation, etc., to take charge of the property, by means of a receiver, and preserve not only the *corpus* but the rents and profits, for the satisfaction of the debt. When justice requires this course to be pursued, and it is resorted to by the mortgagee, it will give him ample protection’.”

Neilson vs. Heald. 151 Minn. 181. The court there said:

“Ordinarily, under our law, the mortgagor or his successor in interest is entitled to the possession of the property and to the rents and profits therefrom during foreclosure proceedings and until the expiration of the period of redemption (*Marshall & I. Bank vs. Cady*, 76 Minn. 112, 78 N.W. 978); but, if he permits waste of a character to impair the security, and the security is inadequate and those personally liable for the debt are insolvent, a receiver may

be appointed to take charge of the property and to apply the rents and profits, or so much thereof as may be necessary for that purpose, in protecting it from preventable waste.”

So it is clear under the decisions and statute that ample grounds exist here for sequestration of the rents and profits by a court of equity in Oregon. And our opponents' contention comes down once more to the argument that appellants failed to sequester the rents prior to bankruptcy. This of course is wholly false as to Portland Trust, for whose benefit the rents were sequestered both before and after bankruptcy in the state court. It is true as to Investors Syndicate and Metropolitan Life that no sequestration was made before bankruptcy, but all the appellants herein made timely and repeated requests to the bankruptcy court for the rents and profits, alleging undisputed grounds for application thereof. Under the doctrine of the *England* case, *Livingston* case, *Bindseil* case, *Liberdar* case, and all the other numerous cases heretofore cited, appellants are entitled. There is nothing in the Oregon law, common law or statutory, to the contrary. In this case as in the cases just referred to, the mortgagees appealed to the bankruptcy court for protection as to the rents and profits, and are just as fully entitled thereto.

Oregon has not attempted to protect a mortgagor's rights to rents and profits in the event of bankruptcy. Conversely, Oregon has not attempted by statute or otherwise to deprive the mortgagee

of his equitable remedy, simply because the remedy may not have been asserted prior to bankruptcy. It would be absurd for Oregon, or any other state, to attempt to legislate as to equitable remedies in a court of bankruptcy. It is sufficient that a valid mortgage lien was created under the laws of Oregon which is respected by the Bankruptcy Act (Sec. 67d*); and that in Oregon it is recognized that on default the mortgagee under ordinary equitable principles may have the rents and profits sequestered in a proper case for equitable relief. Upon bankruptcy, state jurisdiction ceases. The bankruptcy power awarded Congress by the Constitution is paramount. The bankruptcy court alone, under the provisions of the Bankruptcy Act, and with the established equity jurisdiction of the bankruptcy court, determines the questions before it.

The bankruptcy court being the only forum, must deal fairly with adverse claimants who intervene by filing petitions asserting adverse claims. The bankruptcy court is the *only* court, and the mortgagee's equitable remedies must be preserved intact, though the relief is necessarily in different form — the bankruptcy court appoints no special receiver for a mortgagee, as the trustee serves for all under the court's direction and control. As stated by this court in *American Trust Co. v. England, supra*, quoting from the *Livingston* case:

“They were, of course, unable to take possession

* See Appendix, p. D-11.

of the property from the receiver, except on an order of court, and the record in this case warrants the conclusion that the receiver was acting not only in behalf of the general creditors, insofar as this property was concerned, but was acting also in behalf of these mortgagees, and he collected and impounded these pledged rents and issues, keeping them separate from his other accounts for apparently no other purpose than to make them available as a part of the security under this second mortgage. * * We are of the view that the mortgagees in effect intervened in the receivership proceedings in aid of their proceedings to foreclose, and this intervention operated to charge all of the net income arising from the operation of the property by the receiver with the lien of their mortgage. * * *

“To hold that the mortgagees had a legal right to these rents and issues under the provisions of their mortgage, but that they should be precluded from recovering same because they had not technically pursued a legal remedy is to overlook the fact that the property was in the control of a court of equity, and that equitable remedies commensurate with the legal rights of the parties should be available. To take from the mortgagees the property to which confessedly they are entitled under the pledge provision of their mortgage, and transfer it to the unsecured creditors of the bankrupt, appeals to us as harsh, inequitable, and unwarranted.’ Mortgage Loan Co. v. Livingston, *supra* (C.C.A.) 45 F. (2d) 28, 32, 33, 34.”

We will not repeat the argument and cases previously cited, that the bankruptcy court will, on appropriate action therein by the mortgagee, award the rents and profits before foreclosure sale. Our present purpose is merely to point out that there is

nothing peculiar to Oregon law to take this case out of the general rule recognized by this and all other circuits that have passed on the question.

Nor can it be stated that Oregon is different because in Oregon the covenant for application of rents upon default is not self-executing. It is true that in Pennsylvania and Illinois and in a very few other states such provision entitles the mortgagee to possession and to the rents and profits upon default, irrespective of application for receiver or sequestration. But of the many cases from the various circuits hereinbefore cited by us for the proposition that on appropriate application the bankruptcy court will sequester rents and profits for the benefit of the mortgagee, practically all of them arose in jurisdictions where, as in Oregon, the provision for rents and profits is not self-executing, but where positive action must be taken by the mortgagee, similar to the situation in Oregon.

Thus, this court in the *St. James* case, 65 F. (2d) at page 84, stated the general rule that the mortgagee was not entitled to the rents and profits until actual possession taken or receiver appointed and stated that such was the rule both in New York and California.

The New York rule is that a mortgagee is not entitled to possession despite provision to that effect in the mortgage unless he takes actual possession, personally or through a receiver, in a proper case. *Sullivan vs. Rosson*, 223 N.Y. 217, 119 N.E.

405. This again is the same rule as prevails in the State of Oregon, yet the cases are uniform under the New York law that from and after the date of an application in the bankruptcy court by the mortgagee for the rents and profits he will be entitled to same (always assuming that there are equitable grounds for the appointment of a receiver). *In re Brose*, 254 Fed. 664, C.C.A. 2; *Lincoln Bank vs. Realty Associates*, 67 Fed. (2d) 895, C.C.A. 2. These cases demonstrate that under a statutory and common law situation similar to that of Oregon the mortgagee's rights are not cut off on account of bankruptcy.

We have already had occasion herein to point out (*supra*, pp. 35-6) that in the case of *Prudential v. Liberdar*, 74 F. (2d) 50, which arose in New York, the Second Circuit in holding application by a mortgagee to the equity court in general receivership was sufficient to entitle him to the rents and profits, compared the Oregon Statute (as it existed prior to 1927), as construed in *Teal v. Walker*, to the New York statute. The court held that under both statutes an agreement for the rents and profits upon default was not self-executing but that the remedy was by application to the court, stating with reference to the statute (74 F. (2d) at page 53) :

“It is much more in accord with its spirit that the court should appoint a receiver in foreclosure or if, as in the present case, receivers have already been appointed in a suit for conservation of assets, that the court should retain pos-

session of the property and have the rents collected *for the benefit of all concerned*. In this way the general creditors will not be in position to complain of mismanagement by the mortgagee, while the latter will have its rights protected as fully as though the property were in its own possession and under its management."

Nor can it be said that the mortgagee's rights to the rents and profits are inchoate and cannot be claimed in the bankruptcy court unless "perfected" prior to bankruptcy. We have shown that all the cases permit a mortgagee to recover the rents and profits after bankruptcy and that the only split in the authorities is as to whether such rents belong to the mortgagee automatically or only upon application to the court. Thus, cases involving assignment of future wages, such as *In re West*, 128 F. 205; *Local Loan Co. v. Hunt*, 292 U.S. 234, 78 L. Ed. 1230, or cases involving mortgage on future crops (*Simms v. Jamieson*, 67 F. (2d) 409) are not in point. The reasoning of the courts in the wage cases is that there is nothing in advance of bankruptcy upon which a lien can be asserted, and further that it is against the policy of the Bankruptcy Act to permit the bankrupt's earnings after the date of bankruptcy to be pledged. The future crop cases are to be distinguished on the ground that the crops are not yet in existence as of the time of bankruptcy, and under the Oregon law there is therefore no lien in effect at time of bankruptcy. However, in a mortgage case, assuming that we have

a valid mortgage, duly recorded, as in the present case, there is a valid lien existing prior to bankruptcy. The right to the rents and profits is incidental to the main lien, and it is merely a matter of remedy to apply the rents and profits to the mortgage indebtedness. The rents and profits spring from the very property which comprises the security right.

AMENDMENT OF 1927 IS APPLICABLE TO MORTGAGES PREVIOUSLY EXECUTED.

The contention will doubtless be made here as it was in the court below that the Investors Syndicate is not entitled to the benefit of the 1927 amendment for the reason that its mortgages were executed prior to the time when the amendment was adopted. The right of the Investors Syndicate to the rents and profits is not dependent on the 1927 amendment since it had ample grounds for the appointment of a receiver upon well established equitable grounds, in accord with the principles announced in *Teal vs. Walker* and the *Shirley* cases. Nevertheless a casual consideration of the matter will disclose that the amendment is applicable to the mortgages of Investors Syndicate even though they were executed prior to its adoption. The opinion of the Special Master to that effect (R. 103-4), confirmed by the District Judge (R. 126-127), is sustained both by reason and authority.

All of the mortgages of Investors Syndicate contained appropriate provisions mortgaging the rents and profits as security for the debt and providing that in the event of foreclosure upon default a receiver might be appointed to collect the rents (R. 56-60). As to three of the properties there were separate assignments of rents of like tenor and effect (R. 54).

The argument that the 1927 amendment is not applicable to mortgages previously executed is based upon the erroneous assumption that no statutes of any kind or character may be given a retroactive application. It also overlooks the well established distinction between statutes dealing with substantive law and those relating to the remedy. We propose to show by two distinct lines of authority that the Investors Syndicate is entitled to the benefit of the 1927 amendment.

(1) In the first place, the 1927 amendment should be given a retroactive application for the reason that it is a declaratory or expository type of statutory enactment designed to clarify the meaning of the original statute. As such, it will be construed to have determined the meaning of the original statute from the time of its enactment, subject only to the constitutional restriction that such application may not be made if the effect would be to impair any vested rights or interests.

That the 1927 amendment is a declaratory or expository statute there can be no doubt. In fact it

would be difficult to find a better illustration of that kind of enactment. That it was not intended to create new, substantive rights or liabilities is shown both by its form and substance. The amendment is in the form of a proviso which is generally not used to create new rights or liabilities but rather to explain or qualify what has gone before.

Minis vs. United States, 15 Pet. 423.

Meyers vs. Pacific States Lumber Co., 122 Ore. 315, 259 Pac. 203.

Olson vs. Heisen, 90 Ore. 176, 175 Pac. 859.

The amendment merely declares how the existing statute "shall be construed". It begins with the significant language that "nothing herein contained shall be construed as any limitation upon the right of the owner of real property to mortgage or pledge the rents or profits thereof * * *."

It seems to be well established that a statute or amendment declaring the meaning of an existing statute, which can be so applied without the disturbance of intervening vested rights will be held to determine the proper construction of the statute from the beginning.

59 C. J. 1181:

"An expository or declaratory act is one that does not purport to change the former law, but only to determine the proper construction to be placed upon the common law or a former statute.

As a general rule, an act declaring the proper construction of a former statute is giving a retroactive operation so as to determine the meaning of the earlier statute from its enactment."

Washington Railway Co. vs. Martin, 7 D.C.
120:

“Now, although it is not within the competency of even the legislative power to deprive any person of a vested right, by means of a declaratory act, yet when no right has been already secured under the former act, the legislature may declare its meaning by a subsequent law, and this will be held to be the meaning of the first law from the beginning, for no wrong is thereby inflicted, since no rights had become vested.”

Clayton vs. Schultz, 50 Pac. (2d) 446 at 449,
4 Cal. (2d) 425.

“While a declaratory statute cannot bind the courts with respect to application of the original statute to transactions which occurred or rights of action which accrued prior to passage of the declaratory act, yet in the absence of intervening rights, an act declaratory of a former one has the same effect as if embodied in the original act at the time of its passage.”

To the same effect:

Mosle vs. Bidwell, 130 Fed. 334 (2 C.C.A.).
Cowell vs. Colorado Springs, 3 Colo. 82.

There is no good reason why these principles should not be applied to the 1927 amendment of Section 5-112 Ore. Code 1930. The right of the legislature under the constitution of Oregon to enact retrospective or retroactive statutes has long been recognized. *MacKenzie vs. Douglas County*, 91 Ore. 375, 178 Pac. 350. Curative and remedial statutes of various types have frequently been enacted in

Oregon and given a retroactive application. *Menasha Co. vs. Coos County*, 66 Ore. 431, 134 P. 1037.

Although the 1927 amendment has never been construed by the Supreme Court of Oregon, it has been applied to previously executed mortgages by many Circuit Courts. Also, it has been decided in the Federal District Court of Oregon that the amendment is a declaratory statute and applies to mortgages previously executed. *New York Life Insurance Co. vs. Progressive Realty Co.*, decided January 7, 1935 (unreported) (R. 127).

It cannot be successfully asserted that the application of the 1927 amendment to the previously executed mortgages of the Investors Syndicate disturbs any vested rights or impairs the obligation of any contract. On the contrary the 1927 amendment operates in favor of the enforcement of contract obligations made by the parties. Section 5-112 Ore. Code 1930 prior to the amendment, under the doctrine of *Teal vs. Walker* and the *Shirley* cases, rendered the contract provisions for obtaining the rents and profits unenforceable as being against the declared public policy of the state.

As stated in *Teal vs. Walker*, such provisions were "not expressly prohibited by law". They were neither *malum prohibitum* or *malum in se*. But they remained dormant as long as the previous construction of the statute constituted an impediment to their enforcement.

It seems obvious, without an examination of

authorities, that a change in the law whereby a contract is rendered enforceable in accordance with its terms could not be considered an "impairment" of the contract. It seems equally obvious that a mortgagor who has entered into a contract providing for the remedy of a receiver to collect rents and profits does not have a vested right in the impediment to the enforcement of that contract, and should not be heard to complain of a subsequent change in the law which has the effect of making the contract enforceable according to the intention of the parties. The principle is stated in 12 Corpus Juris 1060:

"A statute may not be declared unconstitutional on the ground that it gives binding force to a voluntary agreement void or unenforceable when made. Acts validating usurious loans and those perfecting defective conveyances may be mentioned as examples of this class of legislation."

12 C. J. 1064:

"It is within the power of the legislature to give validity to contracts previously made by a corporation which are unenforceable by reason of the corporation's having been defectively organized or organized under an invalid statute, or, in the case of a foreign corporation, invalid because of its failure to comply with a condition precedent to its right to do business in the state."

The text is amply supported by cases holding that no constitutional rights are invaded where a contract unenforceable when made is rendered enforceable by a subsequent change in the law.

Gross vs. U. S. Mortgage Co., 108 U.S. 477, a leading case, holds that a mortgage unenforceable when made because it was against public policy, may be rendered enforceable by a subsequent change in the law without depriving defendant of any vested rights, since a party cannot have a vested right in an impediment to the enforcement of a contract.

To the same effect :

National Surety Co. vs. Architectural Co., 226 U.S. 276.

Ewall vs. Daggs, 108 U.S. 143.

Watson vs. Mercer, 8 Pet. (U.S.) 88.

Prideau vs. Des Moines Joint Stock Land Bank, 34 Fed. (2d) 308.

Bennington County Savings Bank vs. Lowry, 160 Wis. 659, 152 N.W. 463.

(2) By a different line of reason and authority the conclusion may also be reached that the 1927 amendment is applicable to the provision in the Investors Syndicate mortgages for the appointment of a receiver upon foreclosure. All of the mortgages of Investors Syndicate not only mortgage and pledge the rents and profits as a part of the security for the debt, but they also provide that in the event of default and upon foreclosure the Court shall appoint a receiver to collect the rents and profits.

Receivership is a matter of remedy. It is a remedy employed by a court of equity as an aid in the administration of justice. Since it is not the subject of a separate proceeding but can only be used as an instrument to aid the court in a suit based

on other equitable grounds, it is classed as an ancillary remedy. The provisions in the mortgages of Investors Syndicate to the effect that upon foreclosure a receiver should be appointed to collect the rents and profits amount to contracts for a remedy. At the time these contracts were made they were not enforceable obligations because they were against the public policy declared by Section 5-112 as construed by *Teal vs. Walker*.

One provision of the amendment is that the statute shall not be construed "as any limitation upon the power of a court of equity to appoint a receiver to take charge of such real property and collect such rents and profits thereof". This part of the proviso had the effect of removing the restriction, if any, contained in the main statute upon the right of the court to appoint a receiver in a foreclosure suit. Since that provision relates to the remedy to be employed in a suit it will be given a retroactive effect, or more properly stated it will be applied by the court to suits thereafter filed even though the cause of suit arose prior to the amendment.

That principle of law is so universally recognized that an extensive consideration of authorities is not required. The rule is well stated in 59 C.J. 1173:

"The general rule that statutes will be construed to be prospective only and not retrospective or retroactive ordinarily does not apply to statutes affecting remedy or procedure, or, as is otherwise stated, such general rule is subject

to an exception in the case of a statute relating to remedies or procedure. While it has been said that statutes relating to remedies or procedure may be given a retroactive operation, a more accurate statement of the principle intended is that, unless expressly prohibited by statute, and in the absence of directions to the contrary, or unless in doing so some contract obligation is violated or some vested right divested, statutes merely affecting the remedy or law of procedure apply to actions thereafter, whether the right of action accrued before or after the change in the law."

Link vs. Receivers, 73 Fed. (2d) 149:

"It is true that statutes relating to practice and procedure generally apply to pending actions and those subsequently instituted, although the cause of action may have arisen before."

Pacific Indemnity Co. vs. Insurance Co., 25 Fed. (2d) 930, (9 C.C.A. 1928):

In that case this Court held that a California statute passed in 1927 providing that when it appeared in any action that the parties had agreed to resort to arbitration the court should stay the proceedings until the arbitration was completed, was applicable to a contract previously executed for the reason that it was a matter relating to the remedy.

Brainard vs. Coeur d'Alene Mining Co., 35 Idaho 742, 208 Pac. 855:

"Legislation which affects only the remedy or the procedure embraces pending actions, unless it contains words of exclusion." (Citing many cases.)

Other illustrative cases are:

Judkins vs. Jaffee, 21 Or. 89, 27 Pac. 221.

Darling vs. Miles, 57 Or. 593, 112 Pac. 1084.

McGuire vs. Cunningham, 222 Pac. 838, 64
Cal. App. 536.

The foregoing principles and authorities would seem to leave no room for doubt but that the mortgages of Investors Syndicate, although executed prior to the 1927 amendment, are entitled to the benefits of that statute. The same result is obtained whether the statute is viewed as a declaratory enactment which establishes the true interpretation of the statute from the beginning, or whether it is viewed as a statute relating to the remedy. Under either theory to accord Investors Syndicate the benefits of the amendment would not disturb any vested right or impair the obligation of any contract. On the contrary it would serve to give effect to the contract which the parties made. Such a result would be just, as well as lawful.

CONCLUSION

For the reasons assigned, it is contended that the order below should be reversed and decree entered in favor of the mortgagees for the rents and profits to the extent of their deficiencies.

Respectfully submitted,

STEPHEN H. BOYLES

CHAS. W. REDDING

VERNE DUSENBERY,

Attorneys for Investors Syn-
dicate, Appellant.

VERNE DUSENBERY,

Attorney for Metropolitan Life
Insurance Company, Appel-
lant.

VERNE DUSENBERY,

HERBERT L. SWETT,

Attorneys for Portland Trust
& Savings Bank, Appellant.

APPENDICES

2. That the court erred in holding that all rentals collected by the Trustee in the above proceeding from the Nordell Apartment, Resthaven Apartment, Chapman Court Apartment, Duplex Apartment (First) and Duplex Apartment (Second), upon which the appellant, Investors Syndicate, held mortgages and which were collected prior to sale upon foreclosure of the property covered by said mortgages respectively, should be held and disbursed by said Trustee as a part of the funds available for the payment of expenses of administration and claims of the estate.

3. That the Court erred in sustaining the exceptions of the petitioning and intervening creditors and of Ralph A. Coan and S. J. Bischoff to Conclusions of Law numbered six and seven of the Special Master's Report dated November 14, 1936, wherein the Master found and recommended that the net rentals and income from the Adele Manor and the Charmaine Apartment, in the hands of the Trustee, after making deductions therefrom of amounts representing (a) reasonable furniture rental, and (b) property management charge, should be held by the Trustee for the benefit of the Portland Trust and Savings Bank to be applied toward the payment of its respective mortgages on said respective apartment properties, but limiting recovery in the event of foreclosure sale to the amount of deficiency after said sale.

4. That the Court erred in holding that all ren-

tals collected by the Trustee in the above proceeding from the Adele Manor and the Charmaine Apartment, upon which the appellant Portland Trust and Savings Bank held mortgages and which were collected prior to sale upon foreclosure of the property covered by said mortgages respectively, should be held and disbursed by said Trustee as a part of the funds available for the payment of expenses of administration and claims of the estate.

5. That the Court erred in sustaining the exceptions of the petitioning and intervening creditors and of Ralph A. Coan and S. J. Bischoff to Conclusion of Law numbered eight of the Special Master's Report dated November 14, 1936, wherein the Master found that the net rentals and income from the Maravilla Court Apartment, in the hands of the Trustee, after making deductions therefrom of amounts representing (a) reasonable furniture rental, and (b) property management charge, should be held by the Trustee for the benefit of the Metropolitan Life Insurance Company to be applied toward the payment of its mortgage on said apartment property, but limiting recovery in the event of foreclosure sale to the amount of deficiency after said sale.

6. That the Court erred in holding that all rentals collected by the Trustee in the above proceeding from the Maravilla Court Apartment, upon which the Appellant, Metropolitan Life Insurance Company, held a mortgage and which was collected

prior to sale upon foreclosure of the property covered by said mortgage, should be held and disbursed by said Trustee as a part of the funds available for the payment of expenses of administration and claims of the estate.

Wherefore, the appellants jointly and severally pray that the aforesaid order of the District Court of the United States for the District of Oregon, entered June 8, 1938, be reversed, and that a decree be entered, sustaining and confirming the Conclusions of Law numbered one to eight, inclusive, and No. 10 of the Special Master's Report dated November 14th, 1936.

APPENDIX B

SUMMARY OF ARGUMENT

All mortgages herein concerned contained appropriate provisions mortgaging and assigning the rents on default and for appointment of a Receiver upon foreclosure (R. 26, 35, 54, 55, 59, 60). All the mortgages were in default upon bankruptcy (supra, p. . .) ; the values of the respective mortgaged properties were less than the amount due on the mortgages (R. 69). All the properties had been neglected and waste permitted (R. 69) ; taxes were unpaid since 1929 (R. 68). Therefore, under the state law all the mortgagees would, in the absence of bankruptcy, have been clearly entitled to obtain the rents by appointment of a Receiver or other appropriate means upon appropriate application (See R. 60).

Portland Trust had instituted foreclosure proceedings prior to bankruptcy and applied for appointment of a Receiver (R. 8-9). The state court more than four months prior to bankruptcy, in lieu of appointment of a Receiver, compelled the debtor to pay the rentals into court monthly "to be held as part of the security for said mortgage indebtedness and to be applied according to the further orders of the Court" (R. 10). This was equivalent to a receivership prior to bankruptcy. The order was faithfully complied with, even after the filing of involuntary petition in bankruptcy (January

29, 1934) and continued until petition for 77b proceedings in June, 1934 (R. 11). The District Court on April 25, 1934, in the bankruptcy proceedings, modified the previous restraining order issued by the Court and expressly permitted the bank to pay monthly into the Circuit Court the net rentals from the mortgaged properties (R. 11-12). Even after 77b the Trustee did not collect the rentals directly until September 11, 1934. Kaste then turned over to the Trustee the rents in his hands which he had collected in the interim (R. 13). All moneys collected by the Trustee from the apartments mortgaged to Portland Trust have at all times been held in a separate trust account at The Bank of California (R. 13). Formal petition for the rents was filed by the bank February 5, 1935 (R. 16). These facts amount to sequestration, both before and during bankruptcy, in behalf of Portland Trust.

To protect the various mortgagees, and at their request, the Court in taking jurisdiction under 77b required the Trustee to segregate all revenues and expenses from each of the mortgaged properties (R. 7-8). This in itself was a sufficient sequestration entitling the mortgagees to rents accruing thereafter.

Shortly after the Trustee commenced to collect the rentals from the properties mortgaged to Investors Syndicate and Metropolitan, those appellants intervened by filing petitions for leave to foreclose, and for the rents and profits (R. 28-35).

Such petitions were sufficient to entitle the appellants to the rents and profits.

A mortgagee is not to be denied his ordinary remedy to have the rents sequestered, merely because of the intervention of bankruptcy. The Trustee in bankruptcy holds for all creditors, including mortgage creditors, and upon appropriate application the mortgagee's rights to the rents will be safeguarded. Since receivership in a court other than the bankruptcy court is impossible, when the bankruptcy court has once acquired jurisdiction, the bankruptcy court supplies an equitable remedy appropriate to the bankruptcy procedure, to-wit, transfer of rents and profits to the mortgagee from the date of the latter's application therefor. No such application of course is necessary for Portland Trust, because the rents and profits were impounded for the bank's benefit *before* bankruptcy (but such application was made—R. 16).

Jurisdiction herein under 77b was taken by ex parte order, with no opportunity afforded appellants to be heard in advance. Yet the bankrupt was insolvent at the time (R. 62, 68) and thereafter, and had no assets other than the mortgaged properties (R. 96, 68), nor income other than therefrom (R. 69), and had "milked" the mortgaged properties for years (R. 69). Reorganization was impossible since the security was worth considerably less than the mortgage debts (R. 69, 66-7), and the mortgagees refused to scale down their obligations and

permit this improvident mortgagor to continue as owner (R. 68). The debtor admitted that it "stalled" the proceedings (R. 68). Eventually an order of liquidation was entered (R. 62).

A mortgage creditor's rights cannot be indefinitely postponed and injured by the pendency of 77b proceedings, particularly proceedings such as those herein described. The debtor had no equity and the Trustee should not be permitted, for general creditors or for expenses of administration, to hold rents and profits collected by the Trustee under 77b, which are needed to pay mortgage deficiencies.

The court under 77b is vested with all powers of a court of general receivership: Bankruptcy Act, Sec. 77b (a). As such the Trustee represents secured and unsecured creditors. Since under ordinary bankruptcy the mortgagees are entitled to the rents upon application, *a fortiori* is this true in 77b where creditors' remedies are suspended pending reorganization, dismissal or liquidation (here without a hearing). It has therefore been held in 77b cases that it is not even necessary for a mortgagee to petition for the rents; he will, upon dismissal or liquidation, be protected thereto even without such application.

The Oregon rule on real property requires no different result. The Oregon statute recognizes the mortgagee's right to the rents and profits after possession is voluntarily surrendered or after a re-

ceiver is appointed. This is the usual rule throughout this circuit and elsewhere (only a few jurisdictions grant rents and profits to the mortgagee automatically on default). The Oregon statute contains no specific provision for application of rents and profits in the event of bankruptcy, because obviously that is beyond the jurisdiction of the state court. The bankruptcy court takes title complete in the absence of previous foreclosure instituted, and must apply its own equitable rules. This is a matter of remedy to which the mortgagee is entitled.

But if the bankruptcy court denied the mortgagee a remedy in that court to obtain the rents and profits, this would so seriously impair the mortgagee's security rights as to amount to deprivation of property without due process of law and therefore be void under the Fifth Amendment. Accordingly, it is universally held, whether or not under 77b, that the bankruptcy court will award the rents and profits to the mortgagee. The only dispute (not material in the present case) between the various Circuit Courts is whether the mortgagee is entitled to the rents automatically upon bankruptcy, or must file application for the rents and profits in the bankruptcy court.

APPENDIX C

SECTION 77B(a) OF THE BANKRUPTCY
ACT*

“* * * If the petition or answer is so approved, an order of adjudication in bankruptcy shall not be entered and the court in which such order approving the petition or answer is entered shall, during the pendency of the proceedings under this section, have exclusive jurisdiction of the debtor and its property wherever located for the purposes of this section, and shall have and may exercise all the powers, not inconsistent with this section, which a Federal court would have had it appointed a receiver in equity of the property of the debtor by reason of its inability to pay its debts as they mature. * *”

* Only so much of Subdivision (a) is quoted as is pertinent to the matters herein.

APPENDIX D

SECTION 67(d) OF THE BANKRUPTCY
ACT*

“Liens given or accepted in good faith and not in contemplation of or in fraud upon the provisions of this title, and for a present consideration, which have been recorded according to law, if record thereof was necessary in order to impart notice, shall, to the extent of such present consideration only, not be affected by anything herein.”

* The applicable statute is quoted prior to the 1938 Amendment.

APPENDIX E

SECTION 77B(c) (10) OF THE BANK-
RUPTCY ACT

“(c) Upon approving the petition or answer or at any time thereafter, the judge, in addition to the jurisdiction and powers elsewhere in this section conferred upon him, * * * (10) in addition to the provisions of section 29 of this title for the staying of pending suits against the debtor, may enjoin or stay the commencement or continuation of suits against the debtor until after final decree; and may, upon notice and for cause shown, enjoin or stay the commencement or continuance of any judicial proceeding to enforce any lien upon the estate until after final decree.”

In the United States
Circuit Court of Appeals
For the Ninth Circuit

INVESTORS SYNDICATE, PORTLAND TRUST
AND SAVINGS BANK, Trustee, and METRO-
POLITAN LIFE INSURANCE COMPANY,
Appellants,

vs.

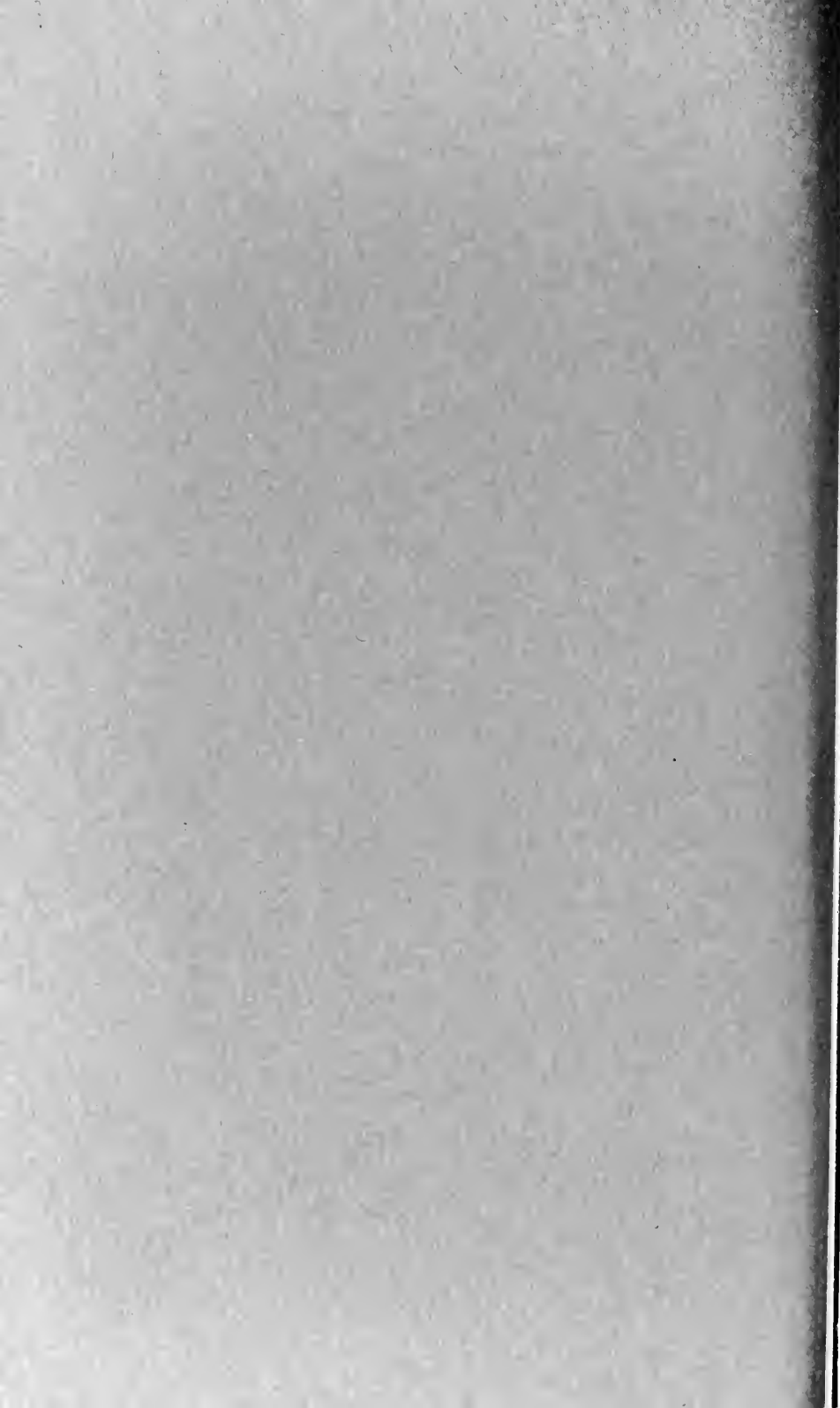
LLOYD R. SMITH, Trustee in the Matter of Guar-
anty Trust Company, a corporation, and Na-
tional Investment Company, a corporation, its
affiliate, Bankrupts, GESINA KING, HELEN
WINSOR JOHNSON, BERT WHY and ELSA
STRATHMAN, MRS. GOW WHY, CONRAD
BAURIEDEL, IDA ISABELL NEILSON,
GEORGE J. and EMMA C. FOURIER, JAMES
T. JONES and LOUIS KNUTSON, and RALPH
A. COAN and S. J. BISCHOFF,
Appellees.

BRIEF OF APPELLEES

Upon Appeal from the District Court of the
United States for the District of Oregon.

VERNE DUSENBERY,
HERBERT L. SWETT,
STEPHEN H. BOYLES and
CHAS. W. REDDING,
Attorneys for Appellants.

S. J. BISCHOFF and
RALPH A. COAN,
Attorneys for Intervening Creditors and Trustee, Appellees.
McCAMANT, THOMPSON, KING & WOOD,
Attorneys for Lloyd R. Smith, Trustee, Appellee.



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In the United States
Circuit Court of Appeals
For the Ninth Circuit

INVESTORS SYNDICATE, PORTLAND TRUST
AND SAVINGS BANK, Trustee, and METRO-
POLITAN LIFE INSURANCE COMPANY,
Appellants,

vs.

LLOYD R. SMITH, Trustee in the Matter of Guar-
anty Trust Company, a corporation, and Na-
tional Investment Company, a corporation, its
affiliate, Bankrupts, GESINA KING, HELEN
WINSOR JOHNSON, BERT WHY and ELSA
STRATHMAN, MRS. GOW WHY, CONRAD
BAURIEDEL, IDA ISABELL NEILSON,
GEORGE J. and EMMA C. FOURIER, JAMES
T. JONES and LOUIS KNUTSON, and RALPH
A. COAN and S. J. BISCHOFF,
Appellees.

BRIEF OF APPELLEES

Upon Appeal from the District Court of the
United States for the District of Oregon.



STATEMENT OF THE CASE

The relevant facts are as follows:

Guaranty Trust Company (and National Investment Company, its affiliate) were the owners of a large number of real properties, encumbered and unencumbered. An involuntary petition in bankruptcy was filed against the Company in January, 1934. Bankrupt purposely "stalled" adjudication until Sec. 77B was enacted when it filed an answer seeking reorganization.

The reorganization proceeding resulted in an order of liquidation which constituted an "Adjudication". Trustees were appointed, order of reference made and the estate is being administered in bankruptcy.

The trustee took possession of the assets consisting of many parcels of real property, encumbered and unencumbered, mortgages, securities and personal property (including properties upon which appellants held mortgages).

The trustees collected rents from these properties and appellants, by the petitions now under consideration, seek to have turned over to them the rents collected from properties upon which they hold mortgages.

The Investors Syndicate's five mortgages were all executed prior to the 1927 Amendment to Section 5-112 Oregon Code.

The Metropolitan Insurance Company held one mortgage made subsequent to the 1927 Amendment.

Investors Syndicate and Metropolitan Life Ins. Co. did not, prior to the filing of the bankruptcy petition, commence any foreclosure proceeding or obtain a receiver, nor did they collect any rents, nor did they obtain possession of the property covered by their mortgage. The first attempt to obtain the rents was made long after bankruptcy when they petitioned for leave to institute foreclosure proceedings (in other courts).

The Portland Trust & Savings Bank was the holder of two mortgages on two parcels of real property made subsequent to the aforesaid Amendment. It commenced suit to foreclose these mortgages in the state court prior to the filing of the bankruptcy petition, prayed for the appointment of a receiver. The application was denied, but the Court made orders directing the owner to file monthly statements showing receipts and disbursements and requiring the net revenues to be deposited with the Clerk of the state court. The orders did not require surrender and the owner remained in possession.

None of the appellants ever petitioned the Bankruptcy Court to turn over possession of the properties to them, or that the trustee should abandon the mortgaged properties, or for the sale of the mortgaged properties free of liens with permission to bid the amount of their mortgage debt at such sale, or for the extension of the trusteeship for their benefit.

They did not seek to have their mortgage liens established and foreclosed in the bankruptcy proceeding, or have the value of their security determined and the extent of deficiency, if any, ascertained in the manner required by Section 57 (h) (11 U.S.C.A. 93 (h)) Bankruptcy Act. On the contrary they sought and were granted permission to foreclose their mortgages in other courts.

The appellant mortgagees appeared specially in the proceedings and refused to submit to the jurisdiction of the Bankruptcy Court (R. 6).

The order requiring the trustees to keep separate accounts (R. 8) was not made for the benefit of appellants and they are not referred to therein by name or description. The order is not limited to properties covered by appellants' mortgages or any mortgages but includes all properties, encumbered or unencumbered. **The order was not made on petition by or on behalf of appellants.** The order does not require that the monies so collected be kept in separate funds. It deals with bookkeeping only.

We deem it necessary to focus attention at this point upon the terms of the order because appellants, throughout their brief, erroneously assert that this order required the maintenance of separate accounts for the benefit of these mortgagees, and upon that erroneous assertion, they predicate the argument that this order constitutes a sequestration of the rents for their benefit.

The same erroneous assertion is made with respect to the accounts filed by the trustees. It is asserted that the trustees filed accounts showing segregation of the rents derived from the mortgaged properties. This is only partially true. The trustees filed separate accounts of receipts and disbursements from **all** properties, **encumbered or unencumbered**.

Long after the making of the order by Judge McNary for the keeping of separate accounts, each of the appellants petitioned the Court that the rents be segregated for their benefit, which was clearly a recognition that the order theretofore made was not a sequestration for their benefit. **These are the petitions which resulted in the order now under review.**

The Special Master, to whom these petitions were referred, recommended that the rents be paid over to the mortgagees. Upon exceptions to the report, District Court Judge James Alger Fee sustained the exceptions and denied appellants' petitions for the rents.

MOTION TO DISMISS THE APPEAL

There is now pending appellee's motions to dismiss the appeals, based upon the ground, among others, that this case is a "proceeding in bankruptcy", and hence, leave to appeal must be granted by this Court and not the District Court.

In Re: Western Women's Club, 93 Fed. (2d) 189, 192 (9th Cir.), this Court held that an application for rents such as in the case at bar is a "proceeding in bankruptcy".

THE ASSIGNMENT OF ERRORS ARE INSUFFICIENT TO PRESENT ANY QUESTION FOR REVIEW.

Each appellant makes two assignments. One is the converse of the other. The three pairs of assignments are alike.

Analysis of assignments numbered 1 and 2 will suffice to present all.

Assignment of Error No. 1, omitting immaterial parts, is as follows:

"That the Court erred in sustaining the exceptions . . . to conclusions of law, numbered 1 to 5, inclusive, of the Special Master's Report . . . wherein . . . the Master found that the net rentals and income from the . . . apartments . . . in the hands of the trustee . . . should be held by the trustee for the benefit of the Investors Syndicate"

The second assignment is clearly a statement of the converse of the first assignment.

All that these assignments say, in effect, is that the Court erred in holding that the trustee in bankruptcy, and not the mortgagees, was entitled to the rents from the mortgaged premises. They do not

point out whether the error lies in (a) lack of any evidence to support the Court's ruling, or (b) the erroneous conception of the law, or (c) the erroneous application of legal principles to the facts in the case, or (d) insufficiency of the findings to support the ruling of the Court, or (e) any other erroneous action.

Rule 11 of this Court provides:

"In equity cases the assignment shall state, as particularly as may be, in what the findings or decree are alleged to be erroneous."

In **American Surety Company v. Fischer Warehouse Co.**, 88 Fed. (2d) 536, 539 (9th Cir.), (1937), this Court said:

"It is not sufficient that appellant assert generally that the trial court made wrong findings and reached wrong conclusions and then and thereby **invite this court to retry the cause** without indicating to us in such assignments in what respect or for what reason the findings or conclusions are claimed to be in error."

"What was the erroneous basis used, or the erroneous step made by the court which shows his conclusion was wrong? The court might have erred in reaching his conclusion by considering testimony erroneously admitted; by erroneously excluding evidence; by finding a fact not supported by substantial evidence; by the erroneous application of law; or by some other erroneous action. But we consider alleged errors, and if none are assigned, there are none to consider."

In **Krause vs. Snyder**, 87 Fed. (2d) 723, 725 (8th Cir.), the Court held:

“The purpose of an assignment of error is to point out to the appellate court what action or ruling of the lower court is complained of, and **to indicate in what respect or for what reason the action of the court is claimed to be erroneous.** The party complaining of the action of the lower court ‘must lay his finger upon the point of objection and must stand or fall upon the case he made in the court below’.”

Assignments similar to those in the case at bar were held insufficient **by this court** to present any question for review in the following cases:

- U. S. vs. Shingle, 91 Fed. (2d) 85 (9th Cir.).
- Goldstein vs. United States, 73 Fed. (2d) 804.
- United States vs. Alcorn, 80 Fed. (2d) 487-489.
- Century Indemnity Co. vs. Nelson, 90 Fed. (2d) 644-646.
- O’Brien’s Manual of Federal Appellate Procedure (1937), Pages 102-103.

SUMMARY OF APPELLEES’ ARGUMENT

1. In Oregon a mortgage on real property is merely a lien. It passes no title, estate or any right whatsoever to the mortgagee until after foreclosure and sale.

- Oregon Code, Sec. 5-112.
- Teal v. Walker, 111 U.S. 242.
- Thomson v. Shirley, 69 Fed. 484 (Dist. of Ore.
Affirmed Couper v. Shirley, 75 Fed. 168
(9th Cir.).
- McLennan v. Holbrook, 143 Ore. 458.
- State ex rel. v. McDonald, 128 Ore. 684.

2. Prior to 1927 Amendment of Sec. 5-112, Oregon Code, provisions in mortgages pledging rents or for

appointment of a receiver were void and unenforceable because against public policy. Mortgagor could not be divested of rents prior to foreclosure and sale, in any manner unless mortgagee obtained peaceful possession.

Oregon Code, Sec. 5-112.

Teal v. Walker, *supra*.

Thomson v. Shirley, *supra*.

Couper v. Shirley, *supra*.

State ex rel. v. McDonald, *supra*.

McKinney v. Nayberger, 138 Ore. 203.

3. In states like Oregon, mortgagees who have not, prior to bankruptcy, entered into possession, either by consent of the mortgagor or through the appointment of a receiver in foreclosure proceedings, cannot recover rents collected by a trustee in bankruptcy who entered into possession of the mortgaged premises and collected the rents. There can be no substitute for actual possession in the manner provided by the Oregon law.

Re: Hotel St. James Co., 65 Fed. (2d) 82 (9th Cir.).

Lincoln Savings Bank v. Realty Assoc. Sec. Corp., 67 Fed. (2d) 895 (2nd Cir.).

Re: Humeston, 83 Fed. (2d) 187 (2nd Cir.).

Re: McGrory Stores Corp., 73 Fed. (2d) 270 (2nd Cir.).

Dallas Tr. & Sav. Bank v. Ledbetter, 36 Fed. (2d) 221 (5th Cir.).

Wilcox v. Goess, 92 Fed. (2d) 8 (2nd Cir.).

Prudential Ins. Co. v. Liberdar Holding Corp., 74 Fed. (2d) 50 (2nd Cir.).

Re: Berdick, 56 Fed. (2d) 288 (Dist. N.Y.).

Garber v. Barkers Mtg. Co., 27 Fed. (2d) 609.

Bindseil v. Liberty Trust Co., 248 Fed. 112
(3rd Cir.).
Re: Brose, 254 Fed. 664 (2nd Cir.).
Alter v. Clark, 193 Fed. 153 (D.C.), Nev.
Goldman, Beckman & Co. v. Smith, 2 A.B.R.
104.
Annotation, 75 A.L.R. 1526.
Re: Clark Realty Co., 234 Fed. 576 (7th Cir.).
Re: Chase, 133 Fed. 79.
Re: Banner, 149 Fed. 936.
Re: Hasie, 206 Fed. 789.
Re: Sweeney, 212 Fed. 1.
Re: Israelson, 230 Fed. 1000.
Alexander v. Smithe Mach. Co., 143 N.E. 321
(Mass.).

4. Investors Syndicate is not entitled to rents, in any event, because all of its mortgages were made prior to the Amendment (an expository proviso) which has no retroactive effect.

McKinney v. Nayberger, *supra*.
Detroit Trust Co. v. Lipsitz, 249 N.W. 892
(Mich.).
American Trust Co. v. Michigan T. Co., 248
N.W. 829 (Mich.).
Freedman v. Massachusetts Life Ins. Co., 81
Fed. (2d) 698 (6th Cir.).
Union Guardian T. Co. v. Commercial Realty
Co., 251 N.W. 786 (Mich.).

5. Expository legislation cannot be given retrospective effect unless act so declares by clear and positive command.

Libby v. Southern Pac. Co., 109 Ore. 449.
Seton v. Hoyt, 34 Ore. 266.
59 Corpus Juris 692, supported by 10 pages of
citation, including many Oregon cases.

6. Void contracts cannot be vitalized by giving retroactive effect to subsequent statutes.

Restatement of the law of Contracts, Vol. 2, p. 1128.

Lewis' Sutherland Statutory Construction, Vol. 1, p. 19; Vol. 2, p. 635; Vol. 2, p. 1219.

Williston on Contracts, Secs. 1683, 1758.

Denny v. McCown, 34 Ore. 47.

Ferguson v. Kaboth, 43 Ore. 414.

Lanning v. Osborne, 82 Fed. 575 (C.C. Cal., Judge Ross).

7. A mortgage pledging future rents does not create any lien **in presenti** but merely a contract for a lien which can ripen into a lien only when the mortgagee has taken possession of the property (in a manner recognized as sufficient by Oregon Law) and has come into possession of the rents.

Re: McCrory Stores Corp., 73 Fed. (2d) 270.
First Joint Stock Land Bank v. Armstrong,
262 N.W. 815.

Lincoln Sav. Bank v. Realty Assoc. Sec. Corp,
supra.

Grether v. Nick, 55 A.L.R. 525-532 (Wis.).

Andrew v. Home Savings Bank, 246 N.W. 48.

Sims v. Jamison, 67 Fed. (2d) 409 (9th Cir.).

Flanagan Bank v. Graham, 42 Ore. 403.

Re: West, 128 Fed. 205 (Dist. of Ore.).

Re: Foster, 9 Fed. Cas., p. 523.

No. 4963, Aff'd Case No. 4982.

Women's Hospital v. 67th St. Realty Co., 95
A.L.R. 1031 (N.Y.).

Kooistra v. Gilford, 207 N.W. 399 (Ia.).

Burgess v. Lasby, 9 Pac. (2d) 164 (Mont.).

Southern Trust Co. v. First City Bank &
Trust Co., 82 S.W. (2nd) 205.

Alexander v. Smithe Machine Co., 143 N.E.
321 (Mass.).

Norwood v. Romer, 183 N.E. 45 (Ohio).
Re: Pine Tree Lumber Co., 269 Fed. 515 (9th Cir.).
Tolland Co. v. First St. Bank, 35 Pac. (2d) 867 (Cal.).
Annotations—A.L.R., Vol. 4, p. 1410; Vol. 91, p. 1221.

8. Prior to perfection of a lien on rents in the manner indicated above, the rents may be (a) appropriated by the owner to his own use; (b) assigned; (c) seized on attachment or execution; (d) seized by a junior mortgagee who first enters into possession by procuring the appointment of a receiver.

Re: McCrory Stores Corp., *supra*.
Sullivan v. Rosson, 4 A.L.R. 1400 (N.Y.).
Lincoln Savings Bank v. Realty Assoc., *supra*.
First Joint Stock Land Bank v. Armstrong, *supra*.
Bank of America v. Bank of Amador Co., 28 Pac. (2d) 86 (Cal.).
N.Y. Life Ins. Co. v. Fulton Dev. Corp., 271 N. Y. Suppl. 563 (N.Y.).
Fisher v Norman Apt., Inc., 72 Pac. (2d) 1092 (Cal.).
Andrew v. Home Savings Bank, *supra*.
Alter v. Clark, *supra*.
Wilcox v. Goess, 92 Fed. (2d) 8 (2d Cir.).

9. When the owner is adjudicated a bankrupt, the legal title to the real property passes to the trustee in bankruptcy who becomes the owner thereof, including the right to the rents to the same extent as a grantee if the mortgagee has not entered possession or procured the appointment of a receiver prior to bankruptcy.

Bankruptcy Act, Sec. 70a (11 U.S.C.A. 110a).
 Annotation—A.L.R., Vol. 75, p. 1526.
 Alter v. Clark, 193 Fed. 153.
 Isaacs v. Hobbs, 282 U.S. 734.
 Bindseil v. Liberty Tr. Co., 248 Fed. 112 (3rd
 Cir.).

10. The Bankruptcy Act also puts the trustee in the position of a creditor holding a lien by attachment and cuts off the right of creditors to perfect liens after the bankruptcy petition is filed, which, for want of record or "for other reasons" were not valid at the time of filing the petition. The Bankruptcy Court has no power to perfect a lien by sequestration order or in any other manner which has not become perfected prior to the filing of the petition.

Bankruptcy Act, Sec. 47a (2), (11 U.S.C.A. 75a (2)).
 Bankruptcy Act, Sec. 67a (11 U.S.C.A. 107a).
 Re: Van Rooy, 21 Fed. Suppl. 431 (Dist. Ct. Ohio).
 Re: West—128 Fed. 205 (D.C. Ore.).
 Goldman Beckman & Co. v. Smith, *supra*.
 Bindseil v. Liberty Tr. Co., *supra*.
 McCrory Stores Corp., *supra*.
 Re: Foster, *supra*.
 Alexander v. Smithe Mach. Co., *supra*.
 Annotation—75 A.L.R. 1526.
 Meier & Frank Co. v. Sabin, 214 Fed. 231 (9th Cir.).

11. Appellants' petitions (now under consideration), seeking the rents in the possession of the trustee, are equivalent to actions against the owner for the recovery of rents collected by him prior to foreclosure and sale, and it is well settled that an owner

in possession cannot be sued for rents by a mortgagee out of possession. The mere fact that the claims are being asserted in the Bankruptcy Court does not change the legal effect of the proceeding.

Teal v. Walker, 111 U.S. 242.

Jones on Mortgages, Sec. 827 (8th ed.).

12. The order requiring the trustee to keep separate accounts did not and could not constitute in law a sequestration of the rents for the benefit of the mortgagee because

(a) the order was merely for the maintenance of separate accounts as to all properties, encumbered or unencumbered; the appellants are not designated therein by name or otherwise, nor is there any language indicating that it was made for their particular benefit.

Opinion by Judge Fee—Record, pp. 131-133.

(b) Sequestration could not be made, in any event, after the filing of the petition in bankruptcy because it would constitute the perfection of a lien in violation of Sec. 47a (2) and Sec. 67a of the Bankruptcy Act.

Bankruptcy Act, Sec. 47a (2) (11 U.S.C.A. 75a (2)).

Bankruptcy Act, Sec. 67a (11 U.S.C.A. 107a.)

Re: Foster, *supra*.

Alexander v. Smithe Mach. Co., *supra*.

Re: Pine Tree Lumber Co., *supra*.

Bindseil v. Liberty Tr. Co., *supra*.

(c) Sequestration is a provisional remedy, and the Bankruptcy Court has no jurisdiction to grant a provisional remedy in aid of a main proceeding pending in another tribunal.

Opinion of Judge Fee—Record, pp. 127, 129,
130, 133, 134.

1 C. J. 945.

Pomeroy's Equity Juris., Vol. 5, p. 3.

(d) There can be no sequestration of future rents. Only property or funds in actual existence may be sequestered.

Hagemann v. Pinska, 37 S.W. (2d) 463.

57 C. J. 174.

John Miller Co. v. Harvey Merc. Co., 165 N.W.
558.

13. Mortgagees cannot, in any event, assert a claim to rents until establishment of actual deficiency, and deficiency judgments entered after bankruptcy has intervened are not conclusive on trustee where mortgagee is purchaser at foreclosure sale. Trustee has the right to show that the value of the property is sufficient to satisfy the mortgage debt.

Re: Cigar Stores Realty Holdings, Inc., 69
Fed. (2d) 823 (2nd Cir.).

Re: Benevolent & P. Order of Elks, 9 Fed.
Supp. 883 (D.C.N.Y.).

Re: Paramount Publix Corp., 85 Fed. (2d) 42
(2nd Cir.).

Annotation—105 A.L.R. 600, 106 A.L.R. 1121.

Re: Soltmann, 238 Fed. 241.

Re: McAusland, 235 Fed. 173, 179 (D.C.N.J.).

Re: Davis, 174 Fed. 556 (3rd Cir.).

Re: Dix, 176 Fed. 582 (D.C. Pa.).

Re: Barrett & Co., 27 Fed. (2d) 159 (D.C.
Ga.).

Re: Brady Foundry Co., 3 Fed. (2d) 437 (7th
Cir.).

ARGUMENT

The Court below predicated its decision on the basic proposition that under the Oregon law which must be applied, a mortgagor retains title to the real property, together with the right of possession and the right to collect and appropriate the rents to his own use; that a pledge of **future rents** does not create a lien until after default and then only when the mortgagee obtains peaceful possession or commences a foreclosure proceeding and obtains the appointment of a receiver therein who collects the rents. The lien will then attach to such rents. There can be no substitute for this method of acquiring a lien; that appellants did not acquire such a lien prior to commencement of the bankruptcy proceeding; that the trustee in bankruptcy acquired all of the title of the owner, the right to and the actual possession, and the owner's right to collect, retain and appropriate the rents, with the added protection of Sec. 47a (2) which placed him in the position of a creditor holding a lien by attachment, and of Sec. 67a which cut off the right to perfect liens after the filing of the bankruptcy petition, and that no sequestration of the rents was made in this case in the bankruptcy proceeding for the benefit of the mortgagees, nor could such sequestration be made because

- (a) it would be equivalent to creating a lien in favor of the mortgagees in violation of the aforesaid provisions of the Bankruptcy Act; and

- (b) sequestration being a provisional remedy, the Bankruptcy Court would be without jurisdiction to grant the same in aid of foreclosure proceedings prosecuted in other tribunals.

The opinion of Judge Fee is printed in full (R. 124 to 134).

It is a concise yet comprehensive discussion of every phase of the law applicable to the case at bar. His conclusions are fully supported by the authorities he quotes and by the additional authorities referred to herein.

Appellants' attack upon this decision is due to the

(1) failure to recognize that in Oregon, as in most jurisdictions, a pledge of future rents does not, ipso facto, create a lien but can be ripened into a lien only by obtaining peaceful possession of the mortgaged property or by the appointment of a receiver in foreclosure proceedings, and the collection of rents by such receiver;

(2) failure to recognize that a mortgage on real property pledging rents and profits has, in reality, two phases:

- (a) a lien upon the real property which is effective at once, and
- (b) a **contract for a lien** on future rents which can ripen into a lien only in the manner referred to above. It is similar to a chattel mortgage on future crops or on after acquired property;

(3) failure to have in mind that upon the filing of a petition in bankruptcy (if adjudication follows thereafter) the title to the property vests in the trustee as of the commencement of the proceeding, with all the incidents of ownership; that the Bankruptcy Act clothes the trustee as such owner with the additional protection of a creditor holding a lien by attachment, and that the right to perfect liens after the filing of the petition is cut off. Hence, a mortgagee (in states like Oregon) is prevented from acquiring any lien upon the future rents after the filing of the petition in bankruptcy if he has not perfected such a lien prior thereto in the manner recognized as sufficient by the Oregon law;

(4) failure to recognize the distinction between the estate acquired by a trustee in bankruptcy (who has all of the rights referred to above) and a receiver appointed in an equity receivership who is merely a custodian.

OREGON LAW

The law in Oregon is crystallized in Sec. 5-112 Oregon Code and in the following decisions.

Section 5-112, Oregon Code, provided:

“Mortgage not a conveyance—Foreclosure—Possession — Receivers. — A mortgage of real property shall not be deemed a conveyance so as to enable the owner of the mortgage to recover possession of the real property without a foreclosure and sale according to law;”

The following portion was added by the 1927 amendment:

“. . . provided, that nothing in this act contained shall be construed as any limitation upon the right of the owner of real property to mortgage or pledge the rents and profits thereof, nor as prohibiting the mortgagee or pledgee of such rents and profits, or any trustee under a mortgage or trust deed from entering into possession of any real property, other than farm lands or the homestead of the mortgagor or his successor in interest, for the purpose of operating the same and collecting the rents and profits thereof for application in accordance with the provisions of the mortgage or trust deed or other instrument creating the lien, nor as any limitation upon the power of a court of equity to appoint a receiver to take charge of such real property and collect such rents and profits thereof.”

This statute was construed and its meaning and effect established in a great many cases, among them the following:

Teal v. Walker, 111 U.S. 242.

Thomson v. Shirley, 69 Fed. 484 (D.C. Or.);
aff'd **Couper v. Shirley**, 75 Fed. 168 (9th Cir.).

Savings & Loan Soc. v. Multnomah County,
169 U.S. 421.

State ex rel. Nayberger v. McDonald, 128 Or.
684, 695, 696—274 Pac. 1104 (Decided after
amendment).

McKinney v. Nayberger, 138 Or. 203-215—2
Pac. (2d) 1111—6 Pac. (2) 228-229 (Dec-
ided after amendment).

Schleef v. Purdy, 107 Or. 71-76.

The applicable quotations from these decisions will be found at Pages 1 to 5 of the appendix.

These cases establish that in Oregon the mortgagee is not entitled to the rents "until he takes possession" by foreclosure and sale; that prior to 1927 possession could not be had prior to sale, by Receiver or otherwise even though there was a stipulation therefor in the mortgage because such stipulations were deemed against public policy.

The amendment now permits a stipulation pledging rents and the taking of possession prior to sale but this can be accomplished only by voluntary surrender or the appointment of a receiver in foreclosure proceedings as provided by the statute. There is in Oregon no substitute for this method of obtaining possession.

THE PLEDGE OF RENTS DOES NOT CREATE A LIEN. IT IS MERELY A CONTRACT FOR A LIEN. IT DOES NOT BECOME A LIEN UNTIL ACTUAL POSSESSION IS TAKEN EITHER THROUGH VOLUNTARY SURRENDER OR THROUGH A RECEIVER APPOINTED IN A FORECLOSURE PROCEEDING. THE LIEN ATTACHES ONLY TO THE RENTS COLLECTED BY SUCH RECEIVER.

Wiltsie on Mortgage Foreclosure, 4th Ed., Vol. 1, Sec. 556, says:

“Sec. 556 until the mortgagee takes possession of the premises or files a bill for foreclosure and procures the appointment of a receiver, the mortgagor is ‘owner to all the world’, and is entitled to all the profits made.

A mortgage may contain a specific provision assigning the rents and profits of the mortgaged premises as well as the land itself as security for the indebtedness. Such a provision does not ordinarily entitle the holder of the mortgage to specific rents and profits while the property is in possession of the mortgagor or persons **claiming under him** even though there has been a default. A provision pledging rents and profits, after default, merely entitles the mortgagee to recover such rents and profits **by taking possession or by means of a receiver**. Where a mortgage assigns rents and profits, upon a default, as a further security, the holder of a senior mortgage, after a default, is **not entitled to the rents and profits collected by a receiver appointed in a foreclosure suit brought by a junior mortgagee.**”

In *Grether v. Nick*, 55 A.L.R. 525-532 (Wis.), the Court said:

“All of the authorities agree that a pledge of rents and profits **does not create any lien** upon the rents and profits until the mortgagee acquires possession, and that all rents and profits paid to the mortgagor prior to taking possession by, or the appointment of, a receiver belong to the mortgagor. All authorities agree that a pledge of rents and profits vests in the mortgagee a right thereto which equity will recognize and enforce in a proper manner. As already stated, **the only way** in which it can be enforced in this state is **by the appointment of a**

receiver under circumstances justifying such procedure.”

A clause pledging the rents is only “an inchoate right” (*A. B. C. Elev. Co. v. Bond & Mtg. Guar. Corp.*, 278 N.Y. Suppl. 880):

“Though the rents were pledged title to such rents, as they became due and were collected, remained in the owner of record until the pledge was made effective, and the owner of the equity divested of title to the rents by appointment of a receiver or by assignment.” (*Women’s Hospital v. 67th St. Realty Co.*, 95 A.L.R. 1031-1034 (N.Y.).)

In *Kooistra v. Gibford*, 207 N.W. 399 (Iowa), the Court said:

“The law is well settled in this state that a mortgagee **has no lien** upon the rents and profits arising from the mortgaged premises under a clause merely pledging the same as security for the debt, and **without making the same a present lien thereon** until an action to foreclose the mortgage is commenced and the appointment of a receiver requested.” (Citing many cases.)

Such a provision in a mortgage

“does not operate as a present lien.” (*Hakes v. North*, 203 N.W. 238 (Iowa).)

Such a provision

“did not create a lien on the rents. . . . It only conferred a right upon the mortgagee to impose a lien.” (*Burgess v. Lasby*, 9 Pac. (2d) 164-167 (Mont.).)

It creates only “a potential lien” and

“limited the perfection of his inchoate right to

the time when he shall invoke the aid of a court of equity . . . and must be perfected . . . by asserting the right by some definite action looking toward possession and subjection. . . . Until that is done, he does not acquire a vested lien that will prevent a complete lien imposed subsequent to his inchoate lien. from becoming prior and paramount in effect.” (Southern Tr. Co. v. First City Bank, 82 S.W. (2d) 205.)

Such a provision “operates only as contracts for a lien” (Norwood Sav. Bank v. Romer, 183 N.E. 45 (Ohio).)

In 4 A.L.R. 1410, annotation, the author says:

“The **great weight of authority** as regards all of these various forms of pledges is to the effect that the mortgagee **does not thereby acquire a lien on the rents and profits**, which prevents a subsequent lien from acquiring priority in the absence of some action on his part to reduce the rents and profits to his possession.”

Giving effect to the rule that a pledge of rents does not create a present lien, the courts have given priority to lien claimants who have first obtained possession of the rents. Thus junior mortgagees were held entitled to the rents as against senior mortgagees. (Sullivan v. Rosson, 4 A.L.R. 1400 (N.Y.); Lincoln Sav. Bank v. Realty Assoc., 67 Fed. (2d) 895 (2d Cir); First Joint Stock Land Bank v. Armstrong, 262 N.W. 815.)

Creditors who have attached rents were given priority over antecedent mortgagees. (Fisher v. Norman Apartments, 72 Pac. (2d) 1092.)

Chattel mortgagees holding crop mortgages were given priority over mortgagees claiming a lien upon the land as well as crops. (*Bank of America v. Bank*, 28 Pac. (2d) 86 (Cal).)

APPELLANTS' RIGHT TO PERFECT LIENS UPON FUTURE RENTS WAS CUT OFF BY THE INTERVENTION OF BANKRUPTCY.

When the bankruptcy petition was filed none of the appellants were in possession of the mortgaged premises; none of them (except Portland Trust and Savings Bank) had commenced any foreclosure proceedings, and none of them had obtained the appointment of a receiver.

Section 47 (a) (2), (11 U.S.C.A., Sec. 75), provides:

“And such trustees, as to all property in the custody, or coming into the custody, of the bankruptcy court shall be deemed vested with all the rights, remedies and powers of a creditor holding a lien by legal or equitable proceedings thereon. . . .”

Section 67 (a) (11 U.S.C.A., Sec. 107), provides:

“Claims which for want of record or for other reasons would not have been valid liens as against the claims of the creditors of the bankrupt shall not be liens against his estate.”

In *Isaacs v. Hobbs*, 282 U.S. 734-737, the Court held:

“Upon adjudication, title to the bankrupt’s property vests in the trustee with actual or construc-

tive possession, and is placed in the custody of the bankruptcy court. *Mueller v. Nugent*, 184 U.S. 114, the title and right to possession of all property owned and possessed by the bankrupt vests in the trustee as of the date of the filing of the petition in bankruptcy. . . .”

The following authorities, construing the aforesaid provisions of the bankruptcy act, support the proposition that after filing of a petition in bankruptcy, liens cannot thereafter be perfected.

In *Fairbanks Steam Shovel Co. v. Wills*, 240 U.S. 642-649, the Court held:

“Appellant’s title was **not perfected, as against the trustee in bankruptcy**, by taking possession of the dredge under the mortgage after the filing of the petition in bankruptcy, and before the adjudication. Since the amendment of Sec. 47a-2 of the Bankruptcy Act by the act of June 25, 1910, trustees have the rights and remedies of a lien creditor or a judgment creditor as against an unrecorded transfer.”

In *Meier & Frank Co. v. Sabin*, 214 Fed. 231-233 (9th Cir.), the Court held:

Under this provision of the statute (referring to 47a (2), Bankruptcy Act) **An agreement**, therefore, which prior to this amendment would have been valid between the parties, **may not be valid as against the trustee.**”

In *re Van Rooy*, 21 Fed. Supp. 431-432 (D.C. Ohio), the trustee collected rents from the mortgaged premises. After the sale of the property, the mortgagee petitioned the bankruptcy court “for an

order to segregate the aforesaid rents thus collected". The mortgagee took no other action "to assert its claim to the rents as distinguished from its lien on the real estate". The mortgage contained a provision giving the mortgagee, upon default, the right of possession and to have a receiver appointed and to collect the rents and profits. The Court held:

"This particular question is rather controlled by the provision of section 47a of the act, as amended, 11 U.S.C.A. 75(a).

.
 (1) True, when the petition was filed and the trustee took possession, the rents did not come into his custody, but accrued later, and therefore should properly be regarded as funds 'coming into the custody of the bankruptcy court'. **When they reached such custody, they were immediately impressed with the foregoing lien** (of attaching creditors).

(2, 3) Funds so collected by a trustee are subject to valid prior liens. *Vincent v. Tafeen*, 1 Cir., 40 F. (2d) 823. But, as noted above, in this case the prior lien of the mortgagee had **not been made effective in the manner provided in the mortgage and was only inchoate**. If the mortgagee desired to make this lien effective, it should have brought foreclosure proceedings with the court's consent, or, without doing this, obtained from this court the appointment of a receiver to collect these rents for its benefit or at least it should have made some such attempt. Its **mere motion for an order requiring the trustee to segregate or set apart the rentals was not sufficient.**" (Cases.)

(Matter in parenthesis inserted.)

This rule was applied in the following additional cases, to-wit:

Re: Foster, 9 Fed. Cas., p. 523, Case No. 4963, aff'd. 9 Fed. Cas., p. 572, Case No. 4982.

Alexander v. Smithe Machine Co., 143 N.E. 321—2 A.B.R. (N.S.) 500 (Mass.).

Goldman Beckman & Co. v. Smith, 2 A.B.R. 104-107.

Re: Bindseil v. Liberty Trust Co., 248 Fed. 112 (3rd Cir.).

Industrial Finance Corp. v. Cappelmann, 284 Fed. 8 (4th Cir.).

Under these authorities the appellants (mortgagees) were clearly precluded from perfecting a lien upon the future rents, after the filing of the bankruptcy petition, in any manner whatsoever, whether by a receiver in a state court, sequestration, or taking of possession. Any attempt to perfect a lien would be a violation of Secs. 47 and 67 of the Act.

THE ORDER CONTAINING PROVISION TO KEEP SEPARATE ACCOUNTS DID NOT AND COULD NOT CONSTITUTE IN LAW A SEQUESTRATION OF THE RENTS FOR THE BENEFIT OF THE MORTGAGEES.

The order which appellees claim to be a sequestration is as follows:

“ORDERED that said trustee will **keep separate accounts** of all moneys coming into his possession from each of the several properties of the debtor or its said affiliate, and that the trustee's accounts shall be kept so that all income

and revenues received and expense incurred in the operation of each of such properties can at all times be ascertained and segregated.”

Appellants frequently repeat two serious erroneous assertions in discussing the effect of this order. **First**, they say that the order directs the segregation of “all moneys”. The order does not direct the manner in which any funds were to be maintained. It gives directions as to **accounting or bookkeeping** merely. **Second**, they erroneously say that the order directed the keeping of separate accounts as to the properties covered by **appellants’ mortgages**, leaving the implication that the order was made for their special benefit. The order directs the maintenance of separate accounts as to **all** properties of the bankrupt, **whether encumbered or unencumbered**. There is not the least intimation that the accounts were to be kept only as to the mortgaged properties or that the accounts were to be kept only as to properties covered by appellants’ mortgages.

At the time the said order was made, the mortgagees had not, by petition or otherwise, requested any sequestration of rents. The mortgagees had **refused to submit themselves to the jurisdiction of the Court, and appeared specially**.

The Court did not adopt the recommendation of the Master that “in particular that separate accounts be kept of the moneys received from the operation of each of the properties covered by said mortgage”. (Word “said” erroneously used. Should read “covered by a separate mortgage.”)

When Eakin was appointed trustee in place of Twining, the order contained the same provision as quoted above.

Appellants now contend that this order was a sequestration for their benefit.

Judge Fee held (R., 131-133):

“The Court did direct therein that the accounts of each parcel be kept separate but did not express any intention of giving any mortgagee an interest therein. It was only sound bookkeeping. Under these circumstances the mortgagees, having taken no steps to protect their supposed rights, could not prevail even under the decisions above cited.

.

The Bankruptcy Court should not be required to sequester rents in the hands of its trustee for the benefit of adverse parties suing the trustee in alien tribunals.”

There is no foundation whatsoever for the appellants' contention that this order was a sequestration for their benefit. The very fact that the Court rejected the Master's recommendation which made some reference to mortgagees (generally—not these appellants) and merely provided for the keeping of separate accounts generally as to all properties—encumbered or unencumbered—demonstrates conclusively that the Court, in making that order, sought to avoid the very consequence which appellants now attach to the order.

Appellants did not treat this order as a sequestration for their benefit because the very petitions

which the Court now has under consideration, filed long after the said order was made, pray that the rents be set apart for them (see prayer of petitioners, R. 25, 33, 52).

The order as made **does not refer to the mortgagees**. It contains no intimation that it was made for the benefit of the mortgagees. It does not require that the “**moneys**” should be “**segregated**” or set apart for the mortgagees, or that it should be held for the mortgagees. The order was not limited to the properties covered by appellants’ mortgages nor to mortgaged properties at all. It required separate accounts to be kept of **all** of the many properties owned by the bankrupt, **whether encumbered or not**.

The order does not deal with moneys at all. It **deals only with the subject of accounting or book-keeping**. It contemplates that the moneys collected should be and remain a single general fund. It is the bookkeeping system only that is dealt with.

We cannot presume that the Court intended to make a void order. To construe the order as appellants contend for would render it void because

- (a) It would be equivalent to perfecting a lien on the rents after bankruptcy in violation of the Bankruptcy Act;
- (b) it would be equivalent to granting a provisional remedy in aid of proceedings pending or to be prosecuted in other courts;
- (c) there could be no substitute for the method

provided by the Oregon law for obtaining a lien on rents which contemplates actual possession by the mortgagee or a receiver;

- (d) sequestration can only be made of property or funds in existence and not on future rents.

Provisional remedies can only be granted in, and in aid of, a proceeding pending in the court allowing the provisional remedy. We are not aware of any instance in which a provisional remedy was granted in aid of proceedings pending in other courts or as independent relief.

In 1 **Corpus Juris**, 945, the rule is stated as follows:

“A provisional remedy is a collateral proceeding, permitted only in connection with a regular action, and as one of its incidents; one which is provided for present need, or for the occasion, that is, one adapted to meet a particular exigency.”

THE FEDERAL COURT DECISIONS IN BANKRUPTCY CASES CLEARLY SUPPORT APPELLEES' POSITION.

The following decisions were rendered in bankruptcy proceedings and involved mortgages in states where the law governing the relation between the mortgagor and mortgagee is the same as it is in Oregon:

In re: Hotel St. James Co., 65 Fed. (2d) 82-84 (9th Cir.), the mortgage contained a provision authoriz-

ing the mortgagee to enter and take possession, to collect the rents and for the appointment of a receiver. The mortgagee did not take possession or have a receiver appointed prior to bankruptcy. The question as to the ownership of rents arose in the same manner as in the case at bar, to-wit: by petition to the bankruptcy court for an order requiring the trustee to turn over the rents. The Court sustained the trustee's right to the rents.

In **Dallas Trust & Savings Bank v. Ledbetter**, 36 Fed. (2d) 221-222 (5th Cir.), the mortgage contained a provision pledging the rents and profits. **Foreclosure proceedings were commenced prior to bankruptcy but no receiver was appointed.** Prior to the date set for the sale, the owner was adjudged a bankrupt. The trustee thereafter collected rents, and the mortgagee later made application to the Bankruptcy Court therefor. The Court held:

“The general rules, that a mortgage is but security for a debt, that, until it is foreclosed, the title and possession remain in the mortgagor, and that the mortgagor is not liable for rent while he remains in possession, prevail in Texas. *Willis v. Moore*, 59 Tex. 628. . . .

It hardly need to be said that the trustee in bankruptcy succeeded to the rights of the bankrupt. There had been no foreclosure sale on the 1st of April, when under any view the rent became due and payable.”

Appellants attempt to distinguish this case by pointing out that the “mortgagee did not apply to

the bankruptcy court until after the rents accrued." This was not the basis of the court's decision. It was decided squarely upon the law of Texas which adheres to the doctrine that a mortgage does not entitle the mortgagee to rents and profits.

It is urged that the later decision of the Court of Appeals of the Fifth Circuit in **Florida Bank vs. U. S.**, 87 Fed. (2d) 896, adopted a different principle. That is not the case. In the **Dallas case** the Court had under consideration a **Texas mortgage**, which does not pass any title to the mortgagee, whereas in the **Florida Bank case** the Court had under consideration a **Florida deed of trust**, and in that State a deed of trust is distinguished from a mortgage and is held to pass the legal title to the grantee and with it the right of possession (**Soutter v. Miller**, 15 Fla. 625).

Appellants' counsel overlook the proposition that the various Courts of Appeal are not dealing with problems of federal law. They deal in each case with the law of the state in which the transaction takes place, and consequently, in one Circuit there may be, and indeed there are, cases in which the law of states embraced in that Circuit differs materially.

Appellants' counsel do not fairly present the facts in the **Florida Bank case**. In view of the distinction that is made in Florida between a mortgage and a trust deed, it was misleading to state that the transaction was a mortgage. In that case

the grantee under the trust deed was actually in possession of the property at the time that the re-organization proceedings were initiated. In the Florida case the re-organization proceedings were dismissed. They did not, as in the case at bar, enter an order of liquidation. That is very important. The dismissal of the re-organization proceedings left the situation as though no proceeding were ever initiated, whereas the entry of an order of liquidation is an order of adjudication as of the date of the initiation of the bankruptcy proceeding.

In re: McCrory Stores Corp., 73 Fed. (2d) 270-271 (2nd Cir.), the Court held:

“But the appellants cannot prevail for an additional reason. Before the lessors filed their petition herein or had otherwise asserted any claim to the accrued sub-rents, a petition in bankruptcy had been filed by McCrory Stores Corporation, an adjudication entered and a trustee elected. The latter stood in the position of a judgment creditor armed with an execution.

Under the decisions of the New York state courts and of the federal courts, when applying the New York law, it is well settled that an assignee of future rents who has done nothing to perfect his rights will not prevail over an execution creditor or trustee in bankruptcy. *Sullivan v. Rosson*, 223 N.Y. 217, 119 N.E. 405, 4 A. L.R. 1400; *In re: Brose* (C.C.A.) 254 F. 664; *In re: Berdick* (D.C.) 56 F. (2d) 288.

.
But an agreement to create a lien is quite different from such an interest as a vendor's lien, a resulting trust, or other vested equitable title.

Shear Co. v. Currie (C.C.A.), 295 F. 841; In re: Rosenberg (D.C.), 4 F. (2d) 581; First State Bank of Amarillo v. Jones, 107 Tex. 623, 183 S. W. 874."

The same rule was applied in the following additional Federal cases:

Re: Brose, 254 Fed. 664 (2d Cir.).

Re: Humeston, 83 Fed. (2d) 182 (2nd Cir.).

Willcox v. Goess, 92 Fed. (2d) 8-12 (2nd Cir.).

Alter v. Clark, 192 Fed. 153-157 (D.C. Neb.).

Smith v. Schulte, 91 Fed. (2d) 732 (2nd Cir.).

Bindseil v. Liberty Trust Co., 248 Fed. 112 (3rd Cir.).

75 A.L.R. 1526, ann.

Re: Israelson, 230 Fed. 1000 (D.C. N.Y.).

Quotations from these cases will be found at pages 15 to 20 of the Appendix.

DISCUSSION OF APPELLANTS' AUTHORITIES

American Trust Company v. England, 84 Fed. (2d) 352 (9th Cir.), is cited as authority for the proposition that the mortgagee is entitled to the rents from the time he makes demand therefor upon the Trustee in Bankruptcy. That case does not support this proposition. The question was not presented or passed upon by the Court and was not the basis of its decision.

The case did not involve rents in the possession of a trustee in bankruptcy **of the owner**. The rents had been collected and were in the possession of the trustee in bankruptcy **of a third mortgagee** who ob-

tained peaceful possession with the "implied consent" (as the Court found) of the owner. The first mortgagee petitioned the Court for an order sequestering these rents for its benefit. Such an order was made without objection from the third mortgagee or the owner. Thereafter the property was surrendered to the first mortgagee who petitioned "for the release of the impounded funds". The owner intervened and, for the first time, asserted a claim to the rents in the possession of the third mortgagee.

Under these circumstances, the Court said:

"The demand of the appellant upon the trustee (of the third mortgagee) for the sequestration of rents, and the **Referee's order for the sequestration**, is the equivalent of the taking of possession by the appellant (first mortgagee) under its trust instrument." (Matter in parentheses inserted.)

In other words, the owner was asserting a claim to rents collected by a mortgagee in possession, and it is, of course, well settled that an owner cannot assert a claim for rents as against a mortgagee in possession until he has paid the mortgage debt.

There is nothing in the decision to indicate that the Court would have made the same ruling if the owner, or the trustee in bankruptcy of the owner, had been in possession and had collected the rents.

Under *Sullivan v. Rosson*, supra, and *Lincoln Savings Bank v. Realty Associates*, supra, the Court would have awarded the rents to the trustee of the third mortgagee if it had asserted a claim thereto

as against the first mortgagee. The owner could only support his claim to the rents on the strength of his own title and not by the weakness of his adversary, and since the owner was out of possession and an actual sequestration of the rents had been made in favor of the first mortgagee, without objection from the owner or the third mortgagee, the Court properly awarded the rents to the first mortgagee.

In the case at bar, the trustee of the owner was in possession of the property and of the rents, and hence is in a position to assert a superior right there-to as against the mortgagees.

The case of **Duparquet v. Evans**, 297 U.S. 216, merely held that the appointment of a receiver in a foreclosure proceeding does not constitute an act of bankruptcy. The Court pointed out that the receivership referred to in 77-B was the kind that was generally known as an **equity receivership**.

When the Court said that "bankruptcy will not override a valid mortgage lien", it referred to a **lien created and perfected prior to the filing of the bankruptcy petition**. It did not hold that **contracts for a lien** could be perfected subsequent to the filing of a petition in bankruptcy.

When the court spoke of sequestration, it referred to **sequestration**, which would be a **provisional remedy in the foreclosure proceeding** and be, in legal contemplation, as unequivocal as actual possession by the mortgagee.

Sequestration contemplates rents in existence, and an effective impounding of such fund for the benefit of the mortgagee. It seems to us there is no such thing as sequestering moneys **not in existence** and which may never come into existence.

In the case of **Straton v. New**, 283 U.S. 318, in answer to a specific certified question, the Court held only that bankruptcy will not invalidate **existing liens**. The Court was careful to point out that when a bankruptcy petition is filed

“liens cannot thereafter be obtained”.

In the case at bar the mortgagees had no liens **on the future rents** at the time the bankruptcy petition was filed. They had only agreements for liens to become effective when the rents accrue and then only (in the State of Oregon) by taking possession and collecting the rents or by the appointment of a receiver in foreclosure proceedings.

In **Continental Bank & Trust Company vs. Nineteenth and Walnut Streets Corp.**, 79 Fed. (2d) 284, cited by the appellant, the Court dealt with a **Pennsylvania** mortgage which conveys to the mortgagee the legal title and right of possession (Appendix, p. 4). The mortgagee was **in actual possession** of the property **prior to the commencement of the reorganization proceeding**, not only by virtue of the law which gave it the right to possession, but also by **virtue of a written consent**. The Court said:

“Under the laws of Pennsylvania, the owner of a defaulted mortgage,

is entitled to take possession of the mortgaged premises and collect the rents and profits accruing thereon. . . .

Moreover, in addition to the warrant of such authorities, Continental (mortgagee) had the written authorization of the mortgagor. . . .”

The cases referred to by that court (same as relied on by appellants), were decided in jurisdictions where the mortgage passes the legal title to the mortgagee and carries with it the right to possession and rents.

Re: **Shelburne, Inc.**, 91 Fed. (2d) 190. The Court dealt with a **New Jersey** mortgage. In that jurisdiction the mortgage passes the legal title to the mortgagee (Appendix, p. 3). In that case foreclosure proceedings were commenced and a receiver appointed who **took and retained possession two years prior to the commencement of the reorganization proceeding.**

In re: Wakey, 50 Fed. (2d) 869 (7th Cir.), involved an **Illinois** mortgage which passes title to the mortgagee and makes him “virtual owner”. (Appendix, p. 2).

This Court has rejected and refused to follow that case (Hotel St. James case), due, no doubt, to the erroneous assumption which the Court of Appeals of the 7th Circuit indulged in when it said:

“Assuming as we do that the trustee in bankruptcy occupies the same position as a receiver appointed in a suit in equity, where no directions

appear as to the disposition of the rents and profits, there seems no escape from the conclusion that payments out of such funds should be made to the lien holders in the order of their priority."

A trustee in bankruptcy does not occupy the same position as a receiver in an equity suit. The receiver is merely a custodian; he acquires no title of any character, whereas the trustee in bankruptcy becomes not only the owner of the title but has the added superior right of a creditor holding a lien by attachment.

Even that court recognized the principle that **the mortgage does not create a lien upon future rents.**

In re: Industrial Cold Storage & Ice Co., 163 Fed. 390, the question passed upon by the Court is not involved in the case at bar. It is the same question which was specifically reserved by the Court below in this case and is excluded from consideration on this appeal. It involved an application to have the rents **applied to the payment of taxes, etc.**, and not an application to turn the rents over to the mortgagees.

The court was dealing with a **Pennsylvania mortgage** and for that reason held:

"That a lien creditor under conditions similar to those now presented is in equity the real owner of the land, and is therefore entitled to have its rents, issues and profits applied to the discharge of his lien."

This is not true in Oregon.

Prudential Ins. Co. v. Liberdar Holding Co., 74 Fed. (2d) 50, 51, 52 (2nd Cir.), is cited for the proposition that the mortgagees are entitled to the rents merely by making application therefor to the Bankruptcy Court. That case was an **equity receivership** and not a bankruptcy case. The equity receiver had no title or interest superior to that of the mortgagees for he was a custodian merely. Hence the mortgagee could perfect and assert his lien upon the rents at any time. That is not true as against a trustee in bankruptcy. The Court in that case clearly recognized the superior right of the trustee in bankruptcy. Said the Court:

“We recently said in *Matter of McGrory Stores Corporation*, 73 F. (2d) 270, that ‘an assignee of future rents (who has done nothing to perfect his rights) **will not prevail over an execution creditor or trustee in bankruptcy.** *Sullivan v. Rosson*, 223 N.Y. 217, 119 N.E. 405, 4 A.L.R. 1400; *In re: Brose* (C.C.A.), 254 F. 664; *In re: Berdick* (D.C.), 56 F. (2d) 288’. We think this is true of any assignment of future rents that is less than a transfer to the assignee of outright ownership rather than of the rights of a mere security holder (cases). In the case at bar **nothing was done by the creditor to appropriate** or even to make claim to any interest in the rents until it filed its petition on December 15, 1933.”

The court denied the mortgagees the rents collected by the equity receiver between the time of appointment and the time that the mortgagees made application, but allowed the rents thereafter because the equity receivership did not like the Bankruptcy

Act cut off the right to perfect a lien.

In the case of **Petition of Cox**, 15 Fed. (2d) 764, the decision of the District Court as well as of the Circuit Court of Appeals was predicated solely on the "applicable local law" of **Massachusetts** (p. 2 Appendix).

The trustee in bankruptcy never took or asserted any claim to possession. The controversy was over rents collected by the mortgagee in possession.

Appellants misconstrue the language employed by the author of the Annotation in 75 A.L.R. 1526. They seize upon the use of the phrase "up to the time the mortgagee takes action" and conclude that any application to the Bankruptcy Court for the rents would suffice.

"Takes action" means "brings a bill to foreclose or enter". (See full sentence from which phrase was culled.)

The element common to all the cases cited by appellants is that in all of the states in which the mortgages were made, the mortgagee, by virtue of the mortgage and the law of the state applicable thereto, had the legal title, the immediate right of possession, and the immediate right to the rents. **The mortgagor merely has a right of redemption.** Hence, when bankruptcy ensues, the only thing that passes to the trustee in bankruptcy in those cases is the equity of redemption and not the legal title or the incidental right to the rents from the mortgaged

property. Whereas, in states like Oregon, New York, Texas, and others, the legal title and the incidental right to the rents and possession remains with the mortgagor, and which passes to the trustee in bankruptcy. He becomes the owner thereof to the same extent as a grantee under a deed, with the added right conferred upon him by Sections 47a and 67a, etc., of the Bankruptcy Act which gives him the rights of a creditor holding a lien by attachment and the right to cut off the perfection of any liens which "for other reason" were inoperative at the time of bankruptcy.

MORTGAGEES ARE NOT IN ANY EVENT ENTITLED TO RENTS UNTIL AFTER THE ASCERTAINMENT OF A DEFICIENCY. A DEFICIENCY JUDGMENT ENTERED AFTER BANKRUPTCY HAS INTERVENED IS NOT CONCLUSIVE WHERE MORTGAGEE IS THE PURCHASER AT FORECLOSURE SALE.

When the Special Master rendered his report, there were no deficiency judgments in existence. The applications for rents are not based upon any ascertained deficiency.

Under these circumstances, the mortgagees are not entitled, in any event, to the rents even assuming, without admitting, that they had valid liens on the rents in question.

In The Matter of Cigar Stores Realty Holdings, Inc., Bankrupt, 69 Fed. (2d) 823, (2nd Cir.), the Court held:

“In any event, a condition precedent to the right of the mortgagee to rents collected is proof of a deficiency. *Associated Co. v. Greenhut, supra; Primeau v. Granfield (C.C., 184 F. 480).* There is none here.”

It is well settled that a deficiency judgment rendered after bankruptcy has intervened, is not conclusive upon the actual existence of a deficiency **where the mortgagee is the purchaser at the foreclosure sale**, and the Bankruptcy Court may determine the actual value of the mortgaged property for the purpose of determining whether the value is sufficient to satisfy the mortgage indebtedness.

Re: *Benevolent & P. Order of Elks*, 9 Fed. Suppl. 883 (D.C.N.Y.).

Re: *Paramount Publix Corp.*, 85 Fed. (2d) 42 (2nd Cir.).

Annotation—105 A.L.R. 600, 106 A.L.R. 1121.

Re: *Soltmann*, 238 Fed. 241.

Re: *McAusland*, 235 Fed. 173, 179 (D.C.N.J.).

Re: *Davis*, 174 Fed. 556 (3rd Cir.).

Re: *Dix*, 176 Fed. 582 (D.C. Pa.).

Re: *Barrett & Co.*, 27 Fed. (2d) 159 (D.C. Ga.).

Re: *Brady Foundry Co.*, 3 Fed. (2d) 437 (7th Cir.).

RESPONSE TO ARGUMENT
PAGES 17 TO 19

Re: Demand for rents or order of segregation.

Appellees do not question the proposition that valid liens perfected prior to bankruptcy are protected by the Bankruptcy Act. We claim only that a pledge of future rents is **not a lien** prior to appointment of a receiver in foreclosure proceedings and that the right to create or perfect liens is cut off by the Bankruptcy Act.

In the case at bar the mortgagees had the right to invoke the jurisdiction of the Bankruptcy Court, and have their mortgage lien enforced.

They could have petitioned

- (a) for possession of the property and that the trustee abandon the same; or,
- (b) that the Bankruptcy Court determine the value of their securities and ascertain the extent of any deficiency (57 (h) (11 U.S. C.A. 93h);
- (c) that the property be sold subject to their liens;
- (d) that the property be sold free of lien and to have their liens transferred to the proceeds, with leave to bid the amount of their mortgage liens upon such sale.

By prosecuting foreclosure proceedings in other tribunals, appellants deprived the Bankruptcy Court of jurisdiction to grant them any provisional reme-

dy by sequestration, or otherwise.

Appellants ignore the distinction between the **lien** upon the **real property** and the **contract for a lien on future rents** by virtue of the provisions pledging the rents. The former was valid and entitled to protection in the Bankruptcy Court, but the latter was not because it had not, prior to the filing of the bankruptcy petition, ripened into a lien in the manner required by the Oregon law, and hence, the principles contended for are inapplicable in the case at bar.

RESPONSE TO ARGUMENT

PAGES 19 TO 35

Re: Contention that mortgagee is entitled to rents upon taking appropriate action in the Bankruptcy Court.

What constitutes "appropriate action?". . . . That depends on the legal effect of a pledge of rents according to the local applicable law. In states like Pennsylvania, where the mortgage passes to the mortgagee the title and rents, the trustee takes title subject thereto; he gets only an equity of redemption, and an application to the Bankruptcy Court for the rents may (?) be sufficient. But in states like Oregon, New York, and others where the pledge of rents does not create a lien until the mortgagee has taken possession or procured the appointment of a receiver, then the trustee acquires title

which is not subject to lien on rents, and an application therefor to the Bankruptcy Court would not entitle the mortgagee to the rents and the right to perfect a lien would be cut off.

The cases cited by appellants do not support their contention.

In **Mortgage Loan Co.** case the Court dealt with a **Missouri** mortgage which passed to the mortgagee, title, right of possession and rents (Appendix, p. 3). Immediately upon the appointment of the bankruptcy receiver, the mortgagee demanded that the revenues be segregated for application on the mortgage debt. **The receiver promptly consented to such segregation and application.** Thereafter the court granted the mortgagee leave to continue foreclosure of its mortgage, and **surrendered the possession of the property to the mortgagee.** After the sale and the ascertainment of a deficiency, the mortgagee petitioned for the payment to it of the net rents so segregated.

The property came to the receiver in bankruptcy freighted (under the Missouri law) with a superior right of mortgage to possession and rents as owner thereof, and was followed by actual sequestration in recognition of the superior right. It was because of the legal status of a mortgagee in Missouri that the Court held:

“The receiver confessedly took over the bankrupt’s property subject to all the then valid existing liens”

which included, of course, the right of possession and rents as owner.

In the case at bar the mortgage did not pass title, right of possession, or rents to the mortgagee, and there was no sequestration prior or after bankruptcy.

In **Re: Hotel St. James Co.**, cited by appellants, this Court sustained the position of the trustee in bankruptcy.

Appellants are in error when they assert (p. 20) that this Court awarded the rents to the trustee in bankruptcy "solely for the reason that no application for the rents and profits had been made by the mortgagee until after all the rents had been collected and the property had been sold on foreclosure".

The case was decided on the authority of *Re: Brose* (New York) because the applicable law of California was the same as in New York. It gave effect to the principle that the owner is entitled to the rents until the pledge of rents ripens into a lien by obtaining the appointment of a receiver.

The reference in that case to the failure to obtain sequestration with the consent of the receiver in possession, as in the *Livingston* case, was an added reason for the decision.

In commenting on *Mortgage Loan Co. v. Livingston*, the Court did not say (as appellants assert, p. 21), that the mere application for the rents was the controlling factor, but it was the application for **and**

the actual sequestration to which "the receiver assented", plus the fact that in Missouri the trustee takes title subject to the mortgagee's right to the rents, that was the controlling factor in the Livingston case.

Obviously **this Court did not regard mere application as the equivalent of sequestration.** Had it done so, it would have treated the application in the St. James case as sufficient to warrant awarding the rents to the mortgagee.

The case of **American Trust Company v. England**, 84 Fed. (2d) 352, has already been discussed (p. 34 this brief).

In the **England** and **Livingston** cases, the sequestration had become complete, binding and unassailable by reason of the acquiescence and consent of the owner in each instance, prior to the time when application was made to the Court for the surrender of the rents to the mortgagee. Not so in the case at bar.

In order to make the **England** case analogous to this case it is asserted (pp. 22-23) that the possession by the **trustee of the third mortgagee** is the same as the possession of the rents by a **trustee of the owner.** This ignores the basic rights of an owner in possession. As against him neither first nor third mortgagees acquire any right to the rents prior to foreclosure of sale, except in the manner provided by the Oregon statute. An owner can, if he so chooses, sur-

render possession to any mortgagee.

The owner in that case did not assert any claim at "all stages". On the contrary, the Court found, he did not assert any claim to the rents until after (a) he had with "implied consent" surrendered possession of the property to the third mortgagee, and (b) the rents were, without objection of the third mortgagee, sequestered for the benefit of the first mortgagee.

In support of the contention that mere application to the court will entitle the mortgagee to rents, appellants quote from the England case as follows:

"The demand of the appellant upon the trustee for the sequestration of rents and **the referee's order for the sequestration**, is the equivalent of the taking of possession by the appellant under its trust instrument. Mortgage Loan Co. v. Livingston."

The making of this order was not opposed by the owner. He could not have opposed it in any event **because he was not in possession**, and had impliedly consented to the third mortgagee's possession. The court did not say that mere application would suffice. It held that the demand for and the unchallenged order of sequestration for the first mortgagee was equivalent to a transfer of possession from the third to the first mortgagee.

There is a difference between an application to turn over rents already sequestered (as in the England and Livingston cases) and an application to

turn over rents not theretofore sequestered (as in the Hotel St. James case and case at bar). In the former case the Court is confronted with an accomplished fact, to-wit: moneys held in trust for the mortgagee for whose benefit it was sequestered. It is no longer concerned with the question as to the right of the mortgagee to obtain sequestration as against an owner or junior encumbrancer. But in the latter case, the Court is confronted with the primary question as to the relative legal rights of the parties contending for such rents under the applicable state law.

At page 26, appellants attempt to establish an analogy between the Livingston case and the case at bar by treating the order for maintenance of separate accounts as a sequestration for their benefit. We have already demonstrated that the order bears no such construction (pages 26 to 30 this brief).

An application in the bankruptcy court for the rents cannot, in any event, entitle the mortgagee thereto under the law of Oregon applicable in this case, because, as already demonstrated, the mortgagee's right to rents can only be perfected by obtaining the appointment of a receiver in foreclosure proceedings and the collection of rents by such receiver. This right was cut off by the intervention of bankruptcy; hence, application to the Bankruptcy Court for the rents collected by trustee in bankruptcy is a futile proceeding.

The case of **Bindseil v. Liberty Trust Co.**, 248 Fed. 112, is not authority in this jurisdiction insofar as it held mortgagee entitled to the rents, because that case involved a **Pennsylvania mortgage**, which passes the legal title, right of possession and rents to the mortgagee (Appendix, p. 4).

In the **Bindseil** case the Court very clearly demonstrated that the rule would be different in jurisdictions like Oregon.

The Court said:

“The cases which hold against the allowance to the mortgagee of rents arising out of mortgaged property after bankruptcy, are based upon the general rule of law, that a mortgage, though in form a conveyance of land, is merely a high security for the payment of a debt or the performance of some other condition (cases), and that, as between mortgagor and mortgagee, the mortgagor retains the title and has the right to all rents, issues and profits of the mortgaged premises, so long as he is in possession. In connection with this rule, **consideration is given the provision of the Bankruptcy Act, by which the trustee in bankruptcy acquires the mortgagor's possession of the mortgaged premises and succeeds to his title and rights. These cases hold in effect that until the mortgagee has reduced the mortgaged premises to his possession, or has attached or sequestered the rents (which, generally speaking, cannot be done after bankruptcy), the possession of the trustee is that of the bankrupt mortgagor, and rents from the mortgaged premises, which, but for bankruptcy would belong to the mortgagor, after bankruptcy belong to the trustee by virtue of his title and possession, and are therefore applicable to debts due general creditors.**” (Cases.)

In the **Central Hanover Bank** case, 99 Fed. (2d) 642 (3rd Cir.), the Court also dealt with a Pennsylvania mortgage (trust deed), (Appendix, p. 4), and for that reason held that when the 77B petition was filed, the mortgagee was the "virtual owner".

In **Florida Bank v. U. S.**, 87 Fed. (2d) 896 (5th Cir.), the mortgagee was in possession at the time of the filing of the re-organization proceeding. In Florida, a trustee under a trust deed has title for all purposes, together with all incidents of ownership (**Soutter v. Miller**, 15 Fla. 625).

In **Lincoln Bank v. Realty Associates**, 67 Fed. (2d) 895, the controversy over the rents was between the first and second mortgagees, the **trustee of the owner making no claim thereto**. The Court awarded the rents to the junior mortgagee on the authority of **Sullivan v. Rosson**, because he first took possession.

The principle of this line of cases is fatal to appellants' contention here, because it is based on the proposition that a lien on future rents only comes into existence upon taking actual possession of the property.

RESPONSE TO ARGUMENT RE: MORTGAGEE'S RIGHTS UNDER SECTION 77b.

At pages 31 to 39, appellants urge that a re-organization proceeding under 77b is the same as an equity receivership for the purpose of bringing

this case within the radius of the **Liberdar case**, 74 Fed. (2d) 50.

The case at bar originated with an involuntary petition in bankruptcy. While this proceeding was pending, the 77B proceeding was initiated, resulting in an order of liquidation, which, under the act, becomes an order of adjudication. If the 77B proceeding had been dismissed, adjudication would have followed, in any event, upon the involuntary petition.

In reality appellants' contention is an attempt to divorce section 77b from the rest of the Bankruptcy Act or to expunge the portion of Subdivision (c) (2) of that section which provides for the appointment of a trustee while the petition for reorganization is pending and that

“every such trustee upon filing such bond, shall have all the title and shall exercise, subject to the control of the judge and consistently with the provisions of this section, all the powers of a trustee appointed pursuant to Section 44 of this Act.”

The character of “title” which passes to the trustee is defined by section 70 of the Bankruptcy Act (11 U.S.C.A. Sec. 110) which provides

“the trustee . . . shall in turn be vested by operation of law with the title of the bankrupt as of the date he was adjudged a bankrupt.”

The “powers” which he may exercise are, of course, all of the powers conferred upon the trustee by all of the provisions of the Bankruptcy Act, and

those more particularly applicable to the case at bar are respectively Section 47a (2) (11 U.S.C.A. Sec. 75) which provides:

“Such trustees as to all property in the custody or coming into the custody of the Bankruptcy Court shall be deemed vested with all the rights, remedies and powers of a creditor holding a lien by legal or equitable proceedings thereon, and also as to all property not in the custody of the Bankruptcy Court, shall be deemed vested with all the rights, remedies and powers of a judgment creditor holding an execution duly returned and satisfied.”

and Section 67a (Title 11 U.S.C.A. Sec. 107a) which provides:

“Claims which for want of record or **for any reasons** would not have been valid liens against the claims of the creditors of the bankrupt shall not be liens against his estate.”

Section 77b (a) provides that in a reorganization proceeding the Court

“shall have and may exercise all the powers, **not inconsistent with this section**, which a federal court would have had it appointed a receiver in equity of the property of the debtor.”

Subdivision k of 77B provides, among other things, that upon the entry of an order of liquidation

“a trustee shall be appointed as provided in Section 44. . . . Claims may be proved as provided by Section 57. . . . Dividends may be declared as provided in Section 65”, and

substantially, all other provisions of the Bankruptcy

Act are made applicable thereby.

Subdivision 77B (o) provides:

“In proceedings under this section and consistent with the provisions thereof, the jurisdiction and powers of the court, the duties of the debtor and the rights and liabilities of creditors, and of all persons with respect to the debtor and its property, shall be the same as if a voluntary petition for adjudication had been filed and a decree of adjudication had been entered on the day when the debtor’s petition or answer was approved.”

Giving effect to these provisions, the Supreme Court of the United States in **Callaghan v. R.F.C.**, 297 U.S. 464, held that section 77B is “an integral part” of the Bankruptcy Act and must be read in connection with all other sections of the Bankruptcy Act.

In **Re: Fox Metropolitan Playhouses, Inc.**, 74 Fed. (2d) 722 (2d Cir.), the Court held that when a 77B proceeding is filed,

“Then for all purposes the bankrupt’s estate is in the same status as when a voluntary petition is filed in the ordinary bankruptcy proceeding.”

It is true that Sec. 77B confers upon the Bankruptcy Court all the jurisdiction formerly exercised in equity receiverships, but **there was added** there to the provisions of the Bankruptcy Act which place the estate in status quo and cut off the right to affect a change of position by perfecting liens and the like. It also takes the title to the property out of the debtor and places it in the trustee so that dur-

ing the consideration of the reorganization plan, no one could acquire rights that were not fixed at the date of the filing of the petition. This was not true under the equity receivership; it did not prevent the perfection of liens after the commencement of the proceeding.

Justice Cardozo did not, in the *Duparquet* case, even intimate that mortgagees are in the same position in reorganization proceedings under 77B as they occupied in the former equity receiverships. He only decided that a receivership in foreclosure proceedings was not an act of bankruptcy.

It is not true, as urged (page 37) that Sec. 77B (insofar as it permits temporary restraining of foreclosure proceedings) imposes any greater hardship on a mortgagee than did the Bankruptcy Act prior to the adoption of 77B. The Bankruptcy Court could, in its discretion, enjoin further prosecution of pending foreclosure proceedings or enjoin commencement of any foreclosure proceedings (*Isaacs v. Hobbs*, 282 U.S. 734). The power to restrain foreclosure proceedings under 77B is likewise discretionary.

In *Continental Illinois National Bank & Trust Co. v. Chicago, etc. Co.*, 294 U.S. 648, the Court held that Congress had the power, under the constitutional provisions relating to bankruptcy, to provide for delay in the prosecution of foreclosure proceedings, by injunction or otherwise and that such provisions do not violate the Fifth Amendment to

the United States Constitution.

The contention (page 37) that the debtor owned practically no assets other than the mortgaged premises is without foundation. The debtor had a great many properties (encumbered and unencumbered, mortgages and personal property.

It is urged that "fairness and equity" require that the rents should be surrendered to the mortgagees. The factors creating these alleged equities are not made apparent. What the mortgagees ask the Court to do is to make non-applicable to them the provisions of the Bankruptcy Act.

The extent to which "equitable principles" will be employed in bankruptcy cases was clearly defined by this Court in **Re: Judith Gap Commercial Co.**, 5 Fed. (2d) 307-309 (9th Cir.). The Court there said that:

" . . . though bankruptcy proceedings are equitable in their nature and must be carried on as such, nevertheless they are to be administered in accord with the Bankruptcy Act and general orders, **and not by virtue of any broad unlimited equity power**" (cases).

In **Smith v. Chase Nat. Bank**, 84 Fed. (2d) 608, 615 (3th Cir.), the Court held:

"It (the court) has not, however, plenary jurisdiction in equity, but is **confined, in the application of the rules and principles of equity, to the jurisdiction conferred upon it by the provisions of the Bankruptcy Act** (11 U.S.C.A., Sec. 1 et seq.), reasonably interpreted" (cases).

RESPONSE TO ARGUMENT THAT DENIAL OF MORTGAGEES' CLAIM TO RENTS WILL VIOLATE FIFTH AMENDMENT.

The entire argument (presented, pp. 39 to 43), is predicated upon the erroneous assumption that the mortgagees had **existing liens** on rents at the time of the commencement of the bankruptcy proceedings. They confuse the **existing lien** upon the **land**, with the **contract for a lien** (covenant pledging future rents), which did not and could not ripen into a lien until mortgagees had either taken possession or procured the appointment of a receiver who collected the rents. The trustee in bankruptcy took title subject to the lien on the land, **but not subject to any lien on future rents** because there was no lien in existence. The Bankruptcy Act only cut off the right to perfect a lien **thereafter**.

In passing upon the various provisions of the Bankruptcy Act, including the recent reorganization acts, the Supreme Court of the United States has made a clean-cut distinction between "**property and property rights**" on the one hand, and "**contract rights**" on the other, and has held definitely that impairment of contract rights does not violate the United States Constitution for the obvious reason that there is no such prohibition in the United States Constitution. When the Constitution of the United States granted Congress the power to legislate with respect to bankruptcy, it necessarily car-

ried with it the power to effect contract rights. Provisions granting discharge, compelling creditors to accept a composition upon the consent of 50% of the creditors, substitution of a claim for three years' rent for the contract right to recover for anticipatory breach of a lease for the entire unexpired term, are some of the instances in which the power of Congress to impair contracts was recognized, and the validity sustained.

In **Hanover National Bank v. Moyses**, 186 U.S. 181, it was held:

"The grant to Congress involves the power to impair the obligation of contracts, and this the states were forbidden to do."

In **Kuehner v. Irving Trust Co.**, 299 U.S. 445, 57 S. Ct. 298 (lease case), the Court held:

"As pointed out in the case last cited there is, as respects the exertion of the bankruptcy power, a **significant difference between a property interest and a contract, since the Constitution does not forbid impairment of the obligation of the latter.** The equitable distribution of the bankrupt's assets, or the equitable adjustment of creditors' claims in respect of those assets, by way of reorganization, may therefore be regulated by a bankruptcy law which impairs the obligation of the debtor's contracts. Indeed every Bankruptcy Act avowedly works such impairment."

The same doctrine was announced and elaborated on in **Wright v. Vinton Branch of Mountain Trust Bank**, 300 U.S. 440, and **Continental Illinois Nat'l**

Bank & T. Co. v. Chicago, etc. Co., 294 U.S. 648.

It is well settled that all contracts are made subject to constitutional power to legislate on the subject of bankruptcy.

In **Wright v. Union Central Life Ins. Co., 304 U. S. 502, 516**, the Court said:

“The mortgage contract was made subject to constitutional power in the Congress to legislate on the subject of bankruptcies. Impliedly, this was written into the contract between petitioner and respondent. **‘Not only are existing laws read into contracts in order to fix obligations as between the parties, but the reservation of essential attributes of sovereign power is also read into contracts as a postulate of the legal order.’**”

Appellants argue (page 40) that if the Bankruptcy Act is construed so as to prevent the mortgagees from obtaining the rents collected by the trustee in bankruptcy, it would be unconstitutional under **Louisville Bank v. Radford, 295 U.S. 555**.

In states like Pennsylvania the Bankruptcy Act would not affect mortgagee's right to rents because he is owner of the property and of the rents accruing therefrom. This right is protected by the Act. But in Oregon the mortgagee is not the owner of the property or the rents. Hence the Bankruptcy Act does not deprive him of anything. **The Act merely fixes the status quo.**

In **Remington on Bankruptcy, Vol. 1, Sec. 6, page 28**, the author points out:

“Property that will pass to the trustee in one State may not, because of diversity of laws, pass in another State; as, for instance, unrecorded conditional sales contracts are void as to creditors in some States and the property covered by them passes to the trustee; in other States they are not void and the same class of property does not pass; yet the law operates uniformly because the creditors still get all the property they would have had had there been no bankruptcy law.” (Citing *Hanover Nat’l Bank v. Moyses*, 186 U.S. 181, 22 S. Ct. Rep. 857).

The first Frazier-Lemke Act was not held invalid on the “sole” ground that it deprived the mortgagee of the right to collect the rents during the pendency of the period of time provided for in the Act. The Supreme Court, in passing upon the validity of the amended Frazier-Lemke Act in *Wright v. Vinton Branch of Mountain Trust Bank*, 300 U.S. 440, 456, 57 S. Ct. 556, 559, said:

“The original Frazier-Lemke Act was there held invalid solely on the ground that the bankruptcy power of Congress, like its other great powers, is subject to the Fifth Amendment; and that, as applied to mortgages given before its enactment, the statute violated that Amendment, since it effected a substantial impairment of the mortgagee’s security. The opinion **enumerates five important substantive rights** in specific property which had been taken. **It was not held that the deprivation of any one of these rights would have rendered the Act invalid**, but that the effect of the statute in its entirety was to deprive the mortgagee of his property without due process of law.”

The withholding of the right to collect the rents

was only one of the five rights enumerated in the Radford case. The Court held clearly that the withholding of that right alone **would not** render the act invalid. It was the withholding of all of the five rights that rendered the act invalid. The cumulative effect was to **deprive the mortgagee of the security itself.**

In the case at bar appellants had no lien on rents to be retained. **They want the Court to perfect a lien for them which they did not have when the bankruptcy petition was filed.**

RESPONSE TO APPELLANTS' APPLICATION OF LEGAL PRINCIPLES TO FACTS OF THE PRESENT CASE.

At pages 44 to 47, appellants attempt to apply the law theretofore discussed to this case, but assume facts not supported by the record.

1. The order for separate accounts was not a sequestration for the benefit of these mortgagees.

2. Mortgagees did not participate in these bankruptcy proceedings at the Master's hearing. They **appeared specially.** They did not ask for and were not granted any relief at that time, or at any time thereafter, except the leave to foreclose their mortgages in other tribunals.

3. They did not assert claims to rents at the Master's hearing held in August, 1934, or at the time that Judge McNary made the order for the mainte-

nance of separate accounts.

4. The Court did not require that separate accounts be kept of receipts and expense as to mortgaged properties. The order was made to include all properties, **encumbered or unencumbered**, which clearly precludes the idea that this order was intended as a sequestration for the benefit of these particular mortgagees.

5. There was no sequestration for the mortgagees' benefit prior to bankruptcy.

6. There is no foundation in the record for appellants' statement (p. 46) that they appeared before the Special Master, asserted their rights as mortgagees "and obtained an order that the rents from each of the mortgaged properties be kept separate and apart, etc." Neither the order of Judge McNary nor the Master's recommendation was made upon the motion of the mortgagees.

RE: CLAIM OF PORTLAND TRUST AND SAVINGS BANK

As to the Bank appellant, Judge Fee held (R. 129):

"No distinction can be drawn in the case of the mortgages held by the Portland Trust & Savings Bank where foreclosure was commenced in the state court prior to the filing of the involuntary petition. The state court did not appoint a receiver in that case although petitioned to do so. Instead it recognized the possession of the Guaranty Trust Company and since it had

jurisdiction of the cause and the parties gave a direction to the Guaranty Trust Company in **personam** to pay the rentals monthly as collected and less an allowance for expenses into court for application upon the agreement. So far as that direction was obeyed it constituted a valid seizure of the rents. But the Court did not lay its hands on the res or have possession of the property through a receiver, or otherwise. The possession of the realty by the Guaranty Trust Company was expressly recognized. No lien was thereby established upon rents subsequently accruing or paid. The court could only have enforced the order by contempt proceedings and after the appointment of a trustee in this court who took possession had no power over rents accruing in the future or moneys in the hands of the bankrupt."

The state court retained no supervision over the operation, management, or control of the property; it imposed no charge upon future rents; it did not restrain or enjoin assignment of the rents or conveyance of the property *pendente lite*, and it was not binding upon any successors of the owner, whether he be grantee, trustee in bankruptcy, or an intervening attaching creditor.

Under the Oregon law as we have demonstrated, to perfect a lien upon rents, the mortgagee must have unequivocal possession, either by consent of the owner or through a receiver who actually takes possession and collects the rents. The lien attaches to the rents thus collected. The order made by the state court did not give the mortgagee that character of possession which was requisite to the perfection of

the lien. The very fact that the bankruptcy trustee was able to and did obtain peaceful possession negatives possession in the mortgagee.

The case of **Hitz v. Jenks**, 123 U.S. 297, cited by appellants, does not support the contention that the state court order was the equivalent to prior possession. The rents, which were the subject of controversy, were collected by Keyser (representative of mortgagee). He was in **actual possession** of the property which was turned over to him by the owner. Part of the rents were collected by him while he was in possession under the surrender, and part while acting in the capacity of a **receiver appointed by the Court** in that litigation. The Court dealt with the two funds separately; first

“for rents received with the consent of Hitz”
(owner),

and second, with respect to

“rents received by Keyser under his appointment as receiver by the decree of the Court and paid by him into the registry of the Court.”

In the case at bar the owner never parted with possession, and there was no receiver prior to commencement of the bankruptcy proceeding.

Capital is made out of the fact that some rent was paid into the state court by the bankrupt after the petition in bankruptcy was filed, and that two month's rent, which was collected by Twining as receiver, was paid over to Mr. Kaste, the bankrupt's attorney. This, together with other rentals collected

by Kaste subsequent to the filing of the bankruptcy petition was later turned over to the trustee in bankruptcy upon order of the Court. The payment of a few months' rental to the state court was on an ex parte order taken by bankrupt's attorney. It was not made upon notice to or consent of any trustee or receiver in bankruptcy. **When the trustee did raise a question in respect to the payment of such rentals, the Court directed Mr. Kaste, who had been collecting the rents, to surrender them to the trustee in bankruptcy, which he did (R. 13).**

It is well settled that no one can surrender property over which the Bankruptcy Court has jurisdiction. A trustee in bankruptcy cannot give away any assets of the estate, and if he does so, the recipient of such assets will acquire no title thereto. **Isaac v. Hobbs, 282 U.S. 734.**

Pending the appointment of a trustee, if the bankrupt remains in possession, he is, by operation of law, the trustee of the title for the benefit of the creditors (*Johnson v. Colber, 222 U.S. 538*). Hence, neither the bankrupt nor its attorney had any right to pay over any rents to the state court, and those rents are recoverable by the trustee in bankruptcy subsequently appointed.

Some capital is also made out of the fact that the trustee purchased a certificate of deposit in the Bank of California. This was not done pursuant to any order of the Court; it was without authority and in violation of the Bankruptcy Act, which requires

all of the bankruptcy funds to be deposited in a duly appointed and qualified depository. Upon this unauthorized act, appellants' counsel assert that this money was "impounded" in the Bank of California for its benefit.

It goes without saying that the trustee could not, of his own account, take funds which are the property of the estate and impress it with a trust in favor of someone else, for that would be the equivalent of surrendering jurisdiction over the fund in violation of the Bankruptcy Act (*Isaacs v. Hobbs, supra*).

Appellants' counsel refer to this money repeatedly as the "trust fund".

There is no order of Court in the record authorizing the creation of any trust fund, nor is there any evidence of the existence of a "trust account" at the Bank of California. The whole argument as to the existence of a "trust fund" is imposed upon an inadvertent use of the term by one of the writers of this brief. It was an inaccurate reference to the certificate of deposit.

Neither the Special Master nor the District Judge treated this certificate of deposit as a trust fund. The Master's findings of fact with respect to the rentals from these two apartments is to be found at page 87 of the record. He said:

"Such net rentals and income for the period subsequent to May 11, 1934, was collected by said John W. Kaste and retained by him until

after the appointment of C. W. Twining as trustee in this proceeding. Thereafter said John W. Kaste, upon the order of this court, paid the accumulated net income and rental in his hands to said C. W. Twining as trustee. **From that time on such net rentals and income have been received by the trustee in this proceeding."**

This was the finding upon which the Master made the report and which was reviewed by Judge Fee upon the exceptions to the report. It is obvious that the unlawful purchase of the certificate of deposit was not considered a factor in determining the question here involved, either by the Master who held in favor of this mortgagee, or by the District Judge who held against it.

The case of **Re: Burdick**, 56 Fed. (2d) 288, cited by the Bank, does not support the contention that the state court order was equivalent to prior possession, because the owner had by written consent, prior to bankruptcy, permitted mortgagee

"To go into possession of the premises and in the same paper assigned to it the rents thereafter accruing"

The mortgagee also gave written notice to the tenants "that mortgagee was in possession".

The case did not involve any controversy as to rents accruing after bankruptcy collected by the trustee.

It is argued (p. 55) that sequestration is not a technical conception. In Oregon the statute fixes the method of perfecting a lien upon future rents.

We are not concerned with the question as to what would constitute sequestration in other jurisdictions.

In the two **Kansas cases, Farmers Union v. Sullivan and Hall v. Goldsworthy**, cited by appellants, the controversy involved rents **in the possession of the mortgagee**. Here the controversy is over rents in the possession of the trustee-owner.

In the **Farmers Union case**, the Court pointed out:

“Here we have the **owner or mortgagor joining the mortgagee** in making a stipulation with the plaintiff agreeing to the payment of the rent to the mortgagee as the agent of the court. . . . There is no need for a judicial proceeding when the mortgagor voluntarily consents to the mortgagee’s obtaining possession of the rents even as an agent of the court.”

In the **Hall case** the Court concluded by saying:

“In view, however, of the agreement made between the parties (referring to the agreement for possession after the foreclosure proceeding was commenced), the court holds that the rents in the hands of Glasgow should be paid to the appellant (mortgagee).”

The Kansas court in the two cases cited distinguished those cases from cases similar to the one at bar and cited numerous authorities supporting the distinction.

**RESPONSE TO APPELLANTS' CONTENTION
"MORTGAGEES' REMEDY IN BANKRUPTCY
COURT NOT IMPAIRED BY STATE LAW".**

Under this title it is argued that appellants would have been entitled to appointment of a receiver prior to bankruptcy.

This is wholly irrelevant. The fact remains that a receiver was not appointed; hence, the lien on future rents was never perfected.

We take issue with the statement of appellants' counsel (p. 59) that there is "admittedly" ample ground for the appointment of a receiver if bankruptcy had not intervened. None of the petitions show (a) insolvency of the obligors or (b) insufficiency of the security. The Investors Syndicate petitions show value of security at that time was in excess of indebtedness (R. 49). A court of equity would be without jurisdiction to appoint a receiver because the mortgagee had an adequate remedy at law.

We take issue with appellants' statement (p. 67) that practically all of the cases they cite arose in jurisdictions where the law governing mortgages was the same as in Oregon. Every decision relied on by appellants was based upon the law of a state in which the mortgagee is the owner of the title, with the incidental right of possession and rents. (See summary of the laws in the various states involved in the cases cited by appellants, Appendix, page 1).

**RESPONSE TO CONTENTION THAT 1927
AMENDMENT IS APPLICABLE TO MORT-
GAGES EXECUTED PRIOR TO ITS
ADOPTION**

The 1927 amendment was not a "validating act" or a "curative act". It was not enacted to validate transactions deemed for technical reasons invalid prior thereto.

The case of *Gross v. U. S. Mortgage Co.*, 108 U. S. 477, cited by appellants (p. 76) is a typical illustration of a validating act. Prior to 1875, in Illinois, a foreign corporation could not take mortgages on real property. In 1875 an act was passed which provided:

"And any such corporation **that may have invested** or lent money, as aforesaid, **may have the same rights** and powers for the recovery thereof . . . as private persons, citizens of this State."

This statute expressly made enforceable mortgages made prior to its adoption.

The Amendment in the case at bar does not, **in terms**, validate any prior transactions. We are concerned, therefore, with the question

- (a) does the language embrace mortgages made prior to the enactment?
- (b) If it does, is it invalid as an impairment of vested rights?

The title of the 1927 Act reads "To amend section 335 Oregon Laws relating to **possession of mortgaged real property**".

In Michigan there was a statute of the same import as 5-112 Oregon Code prior to the amendment. In 1925 there was adopted a statute similar to the amendment in the case at bar. The Michigan Supreme Court held several times that the amendment **did not apply to mortgages executed prior to its adoption.**

In *Detroit Trust Co. v. Lipsitz*, 249 N.W. 892 (Mich.), the Court said:

"Inasmuch as the mortgage was given prior to the effective date of Act No. 228, Pub. Acts of 1925, the assignments of rents clause is not enforceable."

The same rule was applied in *American Trust Co. v. Michigan Trust Co.*, 248 N.W. 829; *Union Guardian Trust Co. v. Commercial Realty Co.*, 251 N.W. 786; *Freedman v. Massachusetts Mut. Life Ins. Co.*, 81 Fed. (2d) 698 (6th Cir.), (applying Michigan law).

The Oregon Supreme Court had the matter before it in *State ex rel. Nayberger v. McDonald*, 128 Ore. 684. The trial court appointed a receiver after the amendment upon a mortgage executed prior to the amendment. It was contended there that the amendment was applicable to mortgages executed prior thereto. The Court held the appointment void and quoted only the statute as it existed prior to

the amendment. Believing that the Court had overlooked the amendment, the matter was specifically called to its attention by petition for rehearing. The petition was denied without any opinion, and we believe that it is a fair interpretation of the court's ruling that it deemed the amendment to be inapplicable to mortgages executed prior to its adoption.

Thereafter the owner sued for damages sustained by reason of the void receivership. It was again urged that the 1927 amendment was applicable to the mortgage, but the Court adhered to its former decision and said (6 P. (2d) 228):

“We held that the order appointing a receiver and naming Guild was void because a receivership of that character was not authorized by section 32-702 Oregon Code 1930” (now 5-112).

Although the Court did not, in express language, refer to the 1927 amendment, the effect of the decision is to hold that the 1927 amendment was not applicable to a mortgage executed prior to its adoption.

In *Libby v. Southern Pacific Co.*, 109 Ore. 449, 452, the Court held:

“The doctrine of the case is that no act will be held to have a retrospective effect unless the intention in that respect is clearly apparent in the statute itself. On the contrary, if it is fairly possible to restrain the operation of the statute so as to be prospective, that course will be adopted by the courts.” (Citing cases.)

In *Seton v. Hoyt*, 34 Ore. 266, 279, the Court held:

“ it is a general rule that a statute was intended to operate **prospectively only**, unless a purpose to give it a retrospective force is declared by **clear and positive command**, or is to be inferred by necessary and unavoidable implication from the language of the act, taken in its appropriate signification, and construed in connection with the subject-matter and the occasion of the enactment, **admitting of no reasonable doubt**, but precluding all question as to such intention.” (Citing numerous cases.)

The rule of construction laid down in the foregoing authorities are particularly applicable to **expository laws** for the reasons assigned in the following cases.

In *Virginia Coupon Cases*, 25 Fed. 647, the Court said:

“So far as it undertook, in declaring the true intent and meaning of a previous statute, to give that meaning a retrospective operation, it was nugatory. It is **not competent for the legislative department of government to declare the meaning of previous statutes for such a purpose**. That is the province of the courts. If the new statute declares the law to mean what the courts declare it to mean, then it is useless. If it undertake to give the law a meaning different from that given by the courts, then it is void. To declare what the law is or has been is a judicial function. To declare what it shall be, is legislative. *Cooley, Const. Lim. 94.*”

In *Richardson v. Fitzgerald*, 109 N.W. 866, the Court said:

“Certainly the lawmakers had no purpose of instructing this court with reference to the construction of the original statute. As everyone

knows, it is the province of the legislature to enact, of the judiciary to expound, and of the executive to enforce, the laws, and any direction by the legislature that the judicial function shall be performed in a particular way is a plain violation of the Constitution. . . . Expository legislation is so uniformly condemned by the courts that we need cite no more than a few of the numerous decisions with our approval of the principle (cases). The legislature may say what the law shall be, not what it is or has been, and this it is very clear was its intention in enacting the amendment. This disposes of appellant’s contention with respect to the curative effect of the amendment.”

See **Lewis’ Sutherland Statutory Construction, Volume 2, page 635.**

Judge Fee did not unqualifiedly hold that the amendment was retroactive as asserted by appellants (p. 70). He held that the amendment could be held applicable to pre-existing mortgages only if it was construed (R. p. 128) so that the proviso “did not change the body of the statute which denies to a mortgagee any remedy for obtaining possession of the mortgaged premises; that the mortgagor may still refuse possession, retain the rents and profits and will not be liable therefor in accordance with *Teal v. Walker*; that the law is unchanged that the mortgagor still has the right of possession although rents are pledged; and that such pledge “may be enforced strictly in accordance with the statute”

upon equitable principles "if full protection be given to intervening rights".

"So construed", said Judge Fee, "the proviso is valid since the agreement to assign the rents accruing after default was not illegal when made and since the proviso grants remedies **narrowly circumscribed.**"

When the trustee in bankruptcy became the owner and succeeded to the rights of a creditor holding a lien by attachment under Sec. 47 and all right to perfect liens was cut off by Sec. 67, the trustee acquired vested rights to possession and rents until foreclosure and sale.

CONCLUSION

The opinion rendered by Judge Fee is a clear, concise, and accurate statement of the law applicable to the case at bar, and the order appealed from should be affirmed.

Respectfully submitted,

S. J. BISCHOFF,
RALPH A. COAN,
Attorneys for Trustee and Pe-
titioning and Intervening
Creditors.

McCAMANT, THOMPSON,
KING & WOOD,
Attorneys for Trustee.

APPENDIX

Digest of the law of several states as to the respective rights of mortgagor and mortgagee from Jones on Mortgages, 8th Ed., Vol. 1, Sections 18 to 66.

SECTION 19 (18).—ALABAMA

“In Alabama a mortgage passes to the mortgagee, as between him and the mortgagor, the estate in the land. It confers something more than a mere security for a debt: it confers a title under which the mortgagee may take immediate possession, unless it appears by express stipulation, or necessary implication, that the mortgagor may remain in possession until default. After the law day, the legal estate is absolutely vested in the mortgagee, who may forthwith maintain ejectment, and the mortgagor has nothing left but an equity of redemption. A conveyance by the mortgagee will pass the legal title, though the debt be not assigned. Nothing but payment, or a release of the mortgage, or a reconveyance, can operate in a court of law to revest the title in the mortgagor; and it is questioned whether payment alone after the law day is sufficient It is held that a partial payment after default and after the law day does not operate to divest the mortgagee’s title.

After the legal title has vested in the mortgagee by reason of the condition being broken, he may convey the premises to another, even though not in possession. The mortgagor still has an equity of redemption which the courts of law will not notice, but which may be asserted and protected in equity until duly foreclosed.”

SECTION 29—ILLINOIS

“While the mortgagor is the legal owner of the mortgaged premises against all persons except the mortgagee, the mortgagee, as against the mortgagor, is held to be the owner of the fee, and entitled to all the rights and remedies which the law gives to such owner. . . .

Upon breach of the condition, the mortgagee has the legal title, and may bring his action without giving the party in possession any notice to quit. . . . The mortgagee may pursue all his remedies at the same time: he may proceed against the debtor personally; against the property by bill in chancery for a strict foreclosure, or for a foreclosure and sale; or, when the debt is still due, by scire facias; and, **he may bring ejectment for the possession, or make peaceable entry (many cases are cited).**”

SECTION 37—MASSACHUSETTS.

“In Massachusetts the English characteristics of a mortgage are retained. **It confers upon the mortgagee a legal estate and the right of possession.** . . . Hence it is that, as between mortgagor and mortgagee, the mortgage is to be regarded as a conveyance in fee; because that construction best secures him in his remedy and his ultimate right to the estate, and to its incidents, the rents and profits. . . .

As between the parties, the mortgage is regarded as a conveyance of the fee for the protection of the rights of the mortgagee, and entitles him to immediate possession. . . . The mortgagee may, even before breach of condition, maintain ejectment and oust the mortgagor.”

SECTION 41—MISSOURI

“In Missouri a mortgage is only a security for a debt, and remains so even after a condition broken; but upon default in the payment of the debt **the mortgagee may maintain ejectment, because he is then in law regarded as the owner of the estate**; but the legal title vests in him only for the purpose of protecting his debt. By a mortgage, or a deed of trust in the nature of a mortgage, the legal title, after condition broken, passes to the mortgagee or trustee. The addition of a power to sell, without judicial proceedings to foreclose, can not avoid the legal effect of the grant. In the case of an absolute deed intended as a mortgage, it is held that the legal title is conveyed, and the grantor has only an equity.

Where a mortgage debt is payable by instalments, the condition is broken by nonpayment of any one of them, and **the mortgagee may thereupon enter or bring ejectment. . . .** (citing many cases).”

SECTION 46—NEW JERSEY

“In New Jersey the nature of the mortgage as a conveyance of an estate to the mortgagee in fee simple, subject to be defeated by the performance of the condition, remains as it was at common law, with the modification that the mortgagee can not enter immediately as at common law, but only upon breach of the condition.”

In the footnote the author quotes from **Woodside v. Adams**, 40 N.J.L. 417, 422, where the court says:

“The legal estate of the mortgagee, after breach of condition, has all the incidents of common-law title, for the purposes of an action of ejectment.” (Cite other N.J. cases showing right of entry.)

SECTION 51—OHIO

“In Ohio a mortgagee is regarded as holding the legal title to the estate during the continuance of the mortgage, After condition broken, the legal title is in the mortgagee, and he may recover possession by an action of ejectment.”

SECTION 53—OREGON

“In Oregon a mortgage does not convey a title, but only creates a lien. The mortgagee’s interest is of a personal nature, and the lien is similar in effect to that created by an ordinary judgment. **By statute** a mortgagor can not against his will be divested of possession of the mortgaged premises, even upon default, without a foreclosure and sale. He retains the right of possession and the legal title.”

SECTION 54—PENNSYLVANIA

“In Pennsylvania a mortgage passes to the mortgagee the title and right of possession to hold till payment be made. He may enter at pleasure, and take actual possession. His estate is conditional, and ceases upon payment of the debt; but until the condition is performed, both his title and his right of possession are as substantial and real as though they were absolute. As between the parties, the mortgage transmit the legal title to the mortgagee, and leaves the mortgagor only a right to redeem. . . .

It is well settled that a mortgagee or his assignee may maintain ejectment and recover possession of the mortgaged property before the condition is broken, unless there be a stipulation in the instrument to the contrary. ‘For some purposes a mortgage is something more than a mere security for a debt. It is a pledge of a specific property. It gives to the creditor the exceptional remedy of ejectment.’”

SECTION 59—TEXAS

“A mortgage is but a security, and the title remains in the mortgagor, subject to be divested by foreclosure. In this respect a deed of trust is held not to differ from a mortgage; The same rule applies to an absolute deed given as security, And since the mortgagor remains the real owner of the land is entitled to the possession, after as well as before breach of condition, the mortgagee can not dispossess him by an action of trespass to try title.”

**Quotations from authorities re Oregon Law,
Page 7 of this brief.**

In *Teal v. Walker*, 111 U.S. 242-248, the Court construed this statute and held:

“We believe that the rule is, without exception, that the mortgagee is not entitled to demand of the owner of the equity of redemption the rents and profits of the mortgaged premises until he takes actual possession.”

“Chancellor Kent states the modern doctrine in the following language: ‘The mortgagor has a right to lease, sell, and in every respect to deal with the mortgaged premises as owner so long as he is permitted to remain in possession, and so long as it is understood and held that every person taking under him takes subject to all the rights of the mortgagee, unimpaired and unaffected. Nor is he liable for rents; and the mortgagee must recover the possession by regular entry by suit before he can treat the mortgagor, or the person holding under him, as a trespasser’.”

“The authorities cited show that, as the defendant in error took no effectual steps to gain possession of the mortgaged premises, he is not entitled to the rents and profits while they were occupied by the owner of the equity of redemption.

The case against the right of the defendant in error to recover in this case the rents and profits received by the owner of the equity of redemption is strengthened by section 323, c. 4, tit. 1, Gen. Laws Or. 1843-1872 (now 5-112 Oregon Code) which declares that ‘a mortgage of real property shall not be deemed a conveyance

so as to enable the owner of the mortgage to recover possession of the real property without a foreclosure and sale according to law'. This provision of the statute cuts up by the roots the doctrine of *Moss v. Gallimore*, ubi supra, and gives effect to the view of the American courts of equity that a mortgage is a mere security for a debt, and establishes absolutely the rule that the mortgagee is not entitled to the rents and profits until he gets possession under a decree of foreclosure. For if a mortgage is not a conveyance, and the mortgagee is not entitled to possession, his claim to the rents is without support. **This is recognized by the supreme court of Oregon as the effect of a mortgage in that state.**

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The case of the defendant in error cannot be aided by the stipulation that Goldsmith and Teal would, upon default deliver to Hewett, the trustee, the possession of the mortgaged premises. That contract was **contrary to the public policy of the state of Oregon, as expressed in the statute just cited, and was not binding on the mortgagor or his vendee, and, although not expressly prohibited by law, yet, like all contracts opposed to the public policy of the state, it cannot be enforced.**" (Bold-face emphasis by writer.)

A petition to the Bankruptcy Court for rents collected by the trustee (owner) is in all essential respects the same as an action by a mortgagee against a mortgagor (owner) for rents collected by him. It presents the identical question.

The bare circumstance that the claim must be litigated in the Bankruptcy Court does not change the contractual or legal rights of the parties. It is

still a controversy over the rents between the mortgagee on the one hand and the owner of the fee in possession on the other hand, and such controversy must be determined by the legal status of the parties as fixed by the law of the State of Oregon.

In **Thomson v. Shirley**, 69 Fed. 484 (District of Oregon), *aff'd Couper v. Shirley*, 75 Fed. 168 (9th Cir.), the mortgage contained a provision that in case foreclosure proceedings were instituted, a receiver may be appointed to collect the rents and profits and apply them on the mortgage. Foreclosure proceedings were commenced, and a receiver was appointed *ex parte*. The Court held:

“Under this statute (referring to 5-112 Ore. Code prior to amendment), the mortgagee is not entitled to the rents and profits before actual possession, even when the mortgagor covenants in the mortgage to surrender the mortgaged property on default in payment of the debt, and nevertheless refuses to deliver it after default. *Teal v. Walker*, 111 U.S. 242, 4 Sup. Ct. 420.”

In **Savings & Loan Soc. v. Multnomah County**, 169 U.S. 421, the Court held:

“By the law of Oregon, indeed, as of some other states of the Union, a mortgage of real property does not convey the legal title to the mortgagee, but creates only a lien or incumbrance as security for the mortgage debt; and the right of possession as well as the legal title, remains in the mortgagor, both before and after condition broken, until foreclosure.” (Citing cases.)

In *State ex rel. Nayberger v. John F. McDonald*, 128 Ore. 684, 695, 696—274 Pac. 1104, decided after amendment, the Court held:

“The statutes of this state provide, among other matters, that a mortgage shall not be deemed as a conveyance so as to enable the owner or mortgagee to recover possession of any real property without foreclosure and sale according to law, and it has been repeatedly held that the **mortgagee has no right to cut off the possession of the mortgagor to the mortgaged premises until such time as his title is divested by a perfect foreclosure.** This is law everywhere where statutes similar to those of this state are in force (cases). . . . So we are clearly convinced that neither the complaint nor the affidavit of Guild were sufficient to authorize the court to appoint a receiver, and that the appointment was absolutely void.”

In *McKinney v. Nayberger*, 138 Or. 203, 215—2 Pac. (2d) 1111—6 Pac. (2d) 228-229, decided after amendment, the Court held:

“Our decision pointed out that the order for the receivership disregarded the **statutory limitations** upon the court’s authority to appoint a receiver . . .

In *State ex rel. Nayberger v. McDonald*, 128 Or. 684 (274 P. 1104), we held that the order appointing a receiver, and naming Guild, was void because a receivership of that character was not authorized by section 32-702, Oregon Code 1930 (now 5-112 Oregon Code).

Since we are of the opinion that the order authorizing the receivership **exceeded the express limitations of our statutes** authorizing such re-

lief, we remain content with the conclusion previously expressed that the order is subject to collateral attack."

In *Schleef v. Purdy*, 107 Ore. 71, 76, the Court quoted from *Sellwood v. Gray*, 11 Or. 534, 537, as follows:

"The mortgage works no change of ownership in the property. It is still the property of the mortgagor, **in law and in equity; is liable for his debts; may be sold under execution, conveyed or devised; is subject to dower, or may be again mortgaged, as any other estate in land. Nor do any of the qualities or incidents of an estate in land attach in the mortgagee; he has but a lien upon the land as a security for repayment, and which cannot operate to affect the possession of the mortgagor without his consent, or to transfer his estate in the land, except after default, and by force of a judicial sale under a decree of foreclosure.**"

Quotation from additional cases in support of the contention that mortgagee's right to perfect liens upon further rents was cut off by the intervention of bankruptcy. Page 26 of this brief.

In *re Foster*, 9 Fed. Cas., p. 523, Case No. 4963, *aff'd* 9 Fed. Cas., p. 572, Case No. 4982, the trustee in bankruptcy came into possession of mortgaged premises and collected rents. Thereafter mortgagee, who had foreclosed his mortgage, petitioned the bankruptcy court for an order to turn over the rents collected and for payment of taxes which the mortgagee had paid. The court held;

"I do not at present see how any proceeding, no matter when taken, can entitle a mortgagee to collect the rents of mortgaged **property**, which had **passed into the possession of an assignee in bankruptcy before the rents became due**. An application by a mortgagee for the appointment of a receiver to collect, for his benefit, rents of the mortgaged premises accruing during the pendency of a foreclosure suit is not based upon any absolute right.

It is, in legal effect, a proceeding to acquire immediate possession of the mortgaged premises, and it may be defeated by the intervention of superior equities, or by the collection of the rents by the mortgagor. It is addressed to the discretion of the court; when granted, the rents secured thereby arise from the possession of the property **at the time the rent became due**, such possession being acquired by means of a receiver.

But if some proceeding, intended to divert the rents from the hands of the assignee, could

avail when taken in time, it seems clear that there remains no ground on which to base a claim like the present, where a second mortgagee petitions to be paid rents which, before the filing of his petition, had been collected by the **assignee in bankruptcy, as owner in possession** of the mortgaged property at the time they became due. Moneys so collected by an **assignee in bankruptcy** are assigned by the law to be distributed equally among all the creditors, unless shown to be subject to some prior specific lien."

In **Alexander v. Smithe Machine Co.**, 143 N.E. 321-2 A.B.R. (N.S.) 500 (Mass.), a mortgagee attempted to perfect a lien of a chattel mortgage, which was invalid by reason of the failure to record, by taking possession of the property **after the filing of the bankruptcy petition**. The Supreme Court of Massachusetts held:

"The defendant's title in mortgage **could not be perfected** by his taking possession of the machines **after** the filing of the petition in bankruptcy and before the adjudication, since by the amendment of the Bankruptcy Act (the Act of June 25, 1910)—

"The trustees have the rights and remedies of a lien creditor or a judgment creditor as against an unrecorded transfer. The estate was in custodia legis from the filing of the petition, and the title of the trustee related back to that date." (Citing cases.)

In **Goldman, Beckman & Co. v. Smith**, 2 A.B.R. 104-107 (opinion by referee), the claimant asserted a landlord's statutory lien.

The property came into possession of the bankruptcy court before the landlord took possession.

The landlord asserted a priority claim under the statutory lien, claiming that the possession taken by the trustee put the property in custodia legis and that such possession was for the benefit of the landlord as well as the creditors. The Court held:

“But it would violate the main purpose of the Bankruptcy Law which is to distribute the property of the bankrupt equally among his creditors, to hold that the trustee represented lien claims, or would or could do anything to perfect or preserve a lien against his estate. Indeed, a creditor claiming a lien can do nothing to perfect it after proceedings in bankruptcy are commenced. If the lien is not then perfect the creditor is prevented from obtaining it. Morgan v. Campbell, 22 Wallace, 381, sec. 67, Bankruptcy Act.”

In the **Bindseil Case**, 248 Fed. 112 (3rd Cir.), relied on by appellants, the Court said:

“These cases hold in effect that until the mortgagee has reduced the mortgaged premises to his possession, or has attached or sequestered the rents (which, generally speaking, cannot be done after bankruptcy), the possession of the trustee is that of the bankrupt mortgagor, and rents from the mortgaged premises, which, but for bankruptcy, would belong to the mortgagor, after bankruptcy belong to the trustee by virtue of his title and possession, and are therefore applicable to debts due general creditors.”

In **Industrial Finance Corp. v. Cappelmann**, 284 Fed. 8 (4th Cir.), 49 Am. B.R. 525-530, the Court held:

“But there is no dissent from the view that the holder of an unrecorded mortgage or similar instrument who has not taken possession

before bankruptcy cannot recover the mortgaged property in the possession of the trustee, even when the state statutes protect only subsequent lien creditors, and not subsequent simple contract creditors, from an unrecorded instrument; for the reason that under the bankruptcy statute from the filing of the petition the trustee stands in the shoes of a subsequent lien creditor without notice."

Quotations from additional Federal decisions in bankruptcy cases, page 30 of this brief.

In re: Hotel St. James Co., 65 Fed. (2d) 82-84 (9th Cir.), the mortgage contained a provision authorizing the mortgagee to enter and take possession, to collect the rents and for the appointment of a receiver. The mortgagee did not take possession or have a receiver appointed prior to bankruptcy. The question as to the ownership of rents arose in the same manner as in the case at bar, to-wit: by petition to the bankruptcy court for an order requiring the trustee to turn over the rents. The Court sustaining the trustee's right to the rents, said:

“In such circumstances the Second Circuit, *In re Brose*, 254 F. 664, has held that the mortgagee is not entitled to the money. After quoting . . . from *Freedman's Saving & Trust Co. v. Shepherd*, 127 U.S. 494:

‘The general rule is that the mortgagee is not entitled to the rents and profits of the mortgaged premises **until he takes actual possession**, or until possession is taken, in his behalf, by a receiver, . . . or until, in proper form, he demands and is refused possession’, the court continued: ‘This general rule the federal courts will follow, except in cases where it appears that the **law of the state** where the premises are situated applies a different rule.’

The court found that such was the rule in New York. So it is in California. 17 Cal. Jur. 288, page 1013; *Freeman v. Campbell*, 109 Cal. 360, 42 P. 35 (1895); *Simpson v. Ferguson*, 112 Cal.

180, 40 P. 104, 44 P. 484, 53 Am. St. Rep. 201 (1896), and a trust deed in California gives no greater right to possession, and thus rents, than does a mortgage.”

In re Brose, 254 Fed. 664-666 (2nd Cir.), the controversy was between the trustee in bankruptcy of the owner and the receiver in a mortgage foreclosure proceeding instituted by a second mortgagee after bankruptcy. The second mortgagee petitioned the Bankruptcy Court for an order directing the bankruptcy receiver to pay the rents collected by him to the receiver in the foreclosure proceeding.

The Court held:

“There is no doubt what the general rule is relating to clauses in a mortgage giving the mortgagee the right to take the rents in terms similar to those used in the mortgage herein involved. It was stated by the Supreme Court in *Freedman’s Saving Co. v. Shepherd*, 127 U.S. 494, 502 (1888), when Mr. Justice Harlan, writing for the court, said, citing cases:

(Quotation in *Hotel St. James* case.)

.
The mortgage, the meaning of which is involved here, is a New York mortgage, and if the New York courts have determined its meaning this court must give the same meaning to its words which would be given to them by the courts of that State.

The difficulty has been to determine what the law of that State upon the subject is. That difficulty has now been cleared up by a recent decision of the New York Court of Appeals in the case of *Sullivan v. Rosson*, 223 N.Y. 217, which reversed the decision made by the

Appellate Division to which reference has already been made, and upon which the district judge relied.

The court in its opinion (referring to *Sullivan v. Rosson*), refers approvingly to the decision of the Supreme Court in *Freedman's Case*, supra. The case clearly settles the law of New York upon this subject, and establishes the principle that such a clause in a New York mortgage as is herein involved operates merely as a pledge of the rents, to which the pledgee does not become entitled until he asserts his right.

In view of that decision, this court holds that the receiver in bankruptcy herein is entitled to retain in his possession all rents due and collected by him prior to the time when the receiver appointed in the foreclosure proceedings acquired the right to possession of the premises by the entry of the order of his appointment on December 10, 1917."

In re: Humeston, 83 Fed. (2d) 187 (2nd Cir.), the owner of real property covered by a mortgage was adjudicated a bankrupt. A trustee was appointed to collect rents. Thereafter the trustee filed his account and gave notice of a hearing thereon. The mortgagee appeared and petitioned the Court that the rents collected be turned over to him. The Court held:

"We held in *Re Brose*, 254 Fed. 664, that when a mortgage contains an assignment of the rents, its effect as between a trustee in bankruptcy and a mortgagee depends upon the law of the situs.

We treated this as settled law in **Re: Brose**, supra, in **Re McCrory Stores Corpora-**

tion, 73 F. (2d) 270, and in **Prudential Ins. Co. v. Liberdar Holding Corporation**, 74 F. (2d) 50, and we are not disposed to reopen the question. Obviously the mortgagee's position is worse when the mortgage does not assign the rents."

In **Willcox v. Goess**, 92 Fed. (2d) 8, 12 (2nd Cir.), the Court held:

" it is well settled in New York that a mortgagor may collect the rents—even when as here the mortgage assigns it—until the mortgagee has taken possession or got a receiver. (**Sullivan v. Rosson**, 223 N.Y. 217, 119 N.E. 405, 4 A.L.R. 1400; In re: **Prudence Co.**, 88 F. (2d) 420 (C.C.A. 2)."

In **Alter v. Clark**, 193 Fed. Rep. 153, 157 (Dist. Ct., Nevada), the Court held:

"So long as **Blaisdell** and **Wallace** remained in possession of the property, they were entitled to apply its rents, issues, and profits to their own use. Their contract was to pay interest, not rent. When the trustee in bankruptcy took possession of the property, he took it 'with the title of the bankrupt', and with the same right to retain the rents prior to foreclosure, which the bankrupt had while they remained in possession. 1 **Jones on Mortgages**, Secs. 670, 771; **Teal v. Walker**, 111 U.S. 242, 4 Sup. Ct. 420, 23 L. ed. 415."

In **Smith v. D. A. Schulte, Inc.**, 91 Fed. (2d) 732 (2nd Cir.), the Court held:

"The lessor, **Schulco Company, Inc.**, mortgaged some of the parcels of land in question to the **Central Hanover Bank & Trust Company**, together 'with the right to receive all rents due

or to become due thereunder'. The debtor argues that this passed title to the rents out of the lessor. That is plainly untrue; the transfer was nothing more than a mortgage of future rents, and it is well settled in New York that until the mortgagee gets a foreclosure receiver, or the equivalent, the rents belong to the mortgagor." (Citing many cases.)

In 75 A.L.R. 1526, the Court will find an extensive annotation dealing with the precise question here involved under the title.

"Rights in respect of the rents and profits as between mortgagee and trustee in bankruptcy of mortgagor."

The annotator says:

"A conflict exists on the question here considered. **By the weight of authority** it is held that the mortgagor is entitled to rents and profits accruing up to the time the mortgagee enters, or brings a bill to foreclose or enter, and that **this right inheres in the mortgagor's trustee in bankruptcy**, and that the latter, up to the time the mortgagee takes action, takes the rents and profits for the benefit of the bankrupt's creditors."

In re: Israelson, 230 Fed. 1000 (U.S.D.C., N.Y.), the mortgage pledged the rents and provided for receivership on default. Suit to foreclose a mortgage was commenced in the State court after bankruptcy. A receiver was appointed in the foreclosure proceeding. He petitioned the court for an order requiring the trustee in bankruptcy to turn over rents collected by him.

The court held that the trustee in bankruptcy was entitled to the rents, and that,

“The language used (referring to pledge of rents) relates **only** to the rents **after** the entry and **taking possession** of the mortgaged premises.”

Additional Authorities in support of appellees' contention that a pledge of rents does not create a lien until mortgagee obtains appointment of a receiver who collects rents.

In **Carlton v. Ruddle Properties**, 38 Pac. (2d) 149 (Cal.), a second mortgagee commenced foreclosure proceedings and obtained the appointment of a receiver who collected rents. The first mortgagee was made a party defendant who appeared and set up the priority of its mortgage, but did not seek to have the receivership extended for its benefit. Thereafter the first mortgagee commenced a separate foreclosure proceeding and prosecuted the same to foreclosure and sale, which resulted in a large deficiency judgment. The first mortgagee then applied to the Court that appointed the receiver for the rents in his possession. The Supreme Court of California held:

“Later, in section 582 of the same volume, (Wiltsie, Mort. Foreclosure), pp. 753, 754, the author, citing *Longdock Mills & Elev. Co. v. Alpen*, 82 N. J. Eq. 190, 88 A. 623, says: ‘If a receiver, pending a foreclosure action by a subsequent mortgagee, is appointed on his motion, and for his benefit, such an appointment enures to his benefit only; and where **no other lienholder** asked to have the receivership **extended to his lien**, the rents and profits should be applied to the discharge of his debt only. A junior mortgagee, obtaining the appointment of a receiver thereby acquires a specific lien on the rents collected by the receiver and is entitled to them as

against a prior mortgagee who made no application for the appointment of a receiver. The **junior mortgagee** is entitled to the rents collected, even though the prior mortgage contains a provision assigning the rents as further security upon default. The first mortgagee cannot have a deficiency judgment in his favor satisfied out of the funds collected by the receiver appointed at the instance of the second mortgagee.'

Again the author, in the same volume, section 622, page 795, quotes with approval the following from the case of *Post v. Dorr*, 4 Edw. Ch. (N.Y.) 412, 414: 'It was held "to be an established rule, that a second or third mortgagee who succeeds in getting a receiver appointed, becomes thereby entitled to the rents collected during the appointment, although a prior mortgagee steps in and obtains a receivership in his behalf and fails to obtain enough out of the property to pay his debt. This is on the principle that a mortgagee acquires a specific lien upon the rents by the appointment of a receiver of them; and if he be a second or third incumbrancer, the court will give him the benefit of his superior diligence over his senior, in respect to the rents which accrued during the time that the elder mortgagee took no measure to have the receivership extended to his suit and for his benefit".'

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Had no receivership been applied for, said rents, issues, and profits from the property would have inured to the benefit of the mortgagor and been wholly lost to both mortgagees. We therefore conclude that the petitioner has a special lien upon these funds, subject to the rights of the mortgagor, and respondent mortgagee is without any rights therein. These funds are the res or subject-matter of the foreclosure action

instituted by petitioner. Although, by a foreclosure of the senior mortgage, the property itself has been taken from under petitioner's lien, still said funds remain yet to be disposed of by a plenary judgment in the action, and respondent bank is without interest of any kind therein or in the judgment that may follow in the case."

In *Long v. W. P. Devereaux Co.*, 286 Pac. 402, 404, 405, the Court held:

"(2) The mortgage in question here did not create a lien on the rents and profits, but simply conferred a right upon the mortgagee to impose a lien as additional security for the payment of the mortgage debt. *Morton v. Union Central Life Ins. Co.*, 80 Mont. 593, 261 P. 278; *Wells-Dickey Co. v. Embody*, supra. . . .

(7) The prevailing rule is that if a mortgagee desires to avail himself of the right to rents and profit pledged by a mortgage upon real estate without the right of immediate possession of the land, he must claim them by invoking the aid of a court of equity for the appointment of a receiver to take possession of the rents and profits." (Citing a great many cases.)

In 95 A.L.R., p. 1053, the Annotator says:

"It must be borne in mind, in connection with rents and profits of mortgaged land, that they are not a part of the land but only incidental thereto, and their impounding is not generally regarded as a matter of absolute right, but rather as a matter of remedy, to be resorted to only in aid of the ordinary remedy of foreclosure and sale. Under this view, the fact that one mortgage is senior or superior to another is not a predominant consideration; the important element is the invoking of the aid of the court to get at the profits of the land for the preserva-

tion of the mortgage security. Hence, it is argued that the mortgagee who first invokes the aid of the court in this respect obtains a superior right in the rents and profits thereby impounded, regardless of the seniority of his lien, at least until such time as the other mortgagee intervenes or commences a separate suit or otherwise asserts the superiority of his lien.

This line of reasoning has found expression in several well-considered statements."

In *Sims vs. Jamison*, 67 Fed. (2d) 409 (9th Cir.), (Appeal from an order made by Judge Fee) the Court dealt with a mortgage on crops to be grown in the future. The Court held:

"The rule applicable in the state of Oregon to a chattel mortgage upon **crops to be grown in the future** is stated as follows in *U. S. Nat. Bank v. Wright*, 131 Or. 518, 520, 283 P. 1, as follows:

'It is well settled that a chattel mortgage on crops to be thereafter sown and raised on the land of the mortgagor constitutes no lien on the land and will attach only to such interest as the mortgagor has in the crops **when they come into being**. Jones on Chattel Mortgages (5th ed.), Sec. 143a; *Bouton v. Haggart*, 6 Dak. 32, 50 N.W. 197; *McMaster v. Emerson et al.*, 109 Iowa 284, 80 N.W. 389; *Simmons v. Anderson*, 44 Minn. 487, 47 N.W. 52; *Collins v. Brown*, 19 Idaho 360, 114 P. 671; *Snerly v. Stacey et al.*, 174 Ark. 978, 298 S. W. 213, 214.'

See, also, *Flanagan Bank v. Graham*, 42 Or. 403, 71 P. 137, 790."

In *Re: West*, 128 Fed. 205 (D.C. Oregon). Several months prior to adjudication, the bankrupt assigned

future wages to secure a loan. The assignee claimed a lien on the wages subsequently earned. Judge Bel-linger held:

“The theory of a lien upon the earnings of future labor is not that it attaches to such earnings from the moment of contract of pledge or assignment, **but from the moment of their existence. It is needless to say that there can be no lien upon what does not exist. . . .** If future earnings in such a case can be said to have a potential existence, they are the subject of an agreement for a lien; but the lien, or the so-called equitable interest, **does not attach until the wages come into existence, and until the lien does attach there is no lien.**”

In *First Joint Stock Land Bank of Chicago v. Armstrong*, 262 N.W. 815, 816, the Court held:

“It is well settled in this state by a long line of cases that **a pledge of rents and profits remote from the granting clause does not, in itself, create any lien upon such rents and profits.** (Cases.) It is equally well settled that such a clause does become effective and creates a chattel mortgage lien when the payments on the mortgage are in default **and action is brought to foreclose and for the appointment of a receiver.** (Cases.) It follows that where there are two mortgages covering the same property and containing such a clause, **the one which first starts action to foreclose obtains the first lien.**”

In *Bank of America v. Bank of Amador Co.*, 28 Pac. (2d) 86 (Cal.), a controversy between the holder of the real estate mortgage, including the crops, and the holder of subsequent chattel mortgage on the crops, the Court held:

“(6) In *Casey v. Doherty*, 116 Cal. App. 42, 2 P. (2d) 495, the rule is stated, supported by authorities cited, that ‘a mortgagee not in possession is not entitled to the rents, issues and profits of the premises where the mortgagor has remained in possession of the mortgaged premises’. The fact that the rents, issues, and profits of the mortgaged property ‘are expressly pledged for the security of the mortgage debt, with the right in the mortgagee to take possession upon default, the mortgagee is not entitled to the rents and profits until he takes **actual possession, or until possession is taken in his behalf by a receiver**’. . . .

In the case of *First National Bank of Lindsay v. Garner*, 91 Cal. App. 176, 266 P. 849, this court went into the question very thoroughly as to the respective rights between a mortgagee whose mortgage included in its provisions, rents, issues, and profits, **as against a third person claiming under a chattel mortgage covering the crops** grown upon the mortgaged premises, and it was there held that, until the mortgage had been foreclosed, the mortgagor in possession was entitled to the rents, issues, and profits of the mortgaged premises, and of course possessed the right to mortgage the same.”

In *Fisher v. Norman Apartments, Inc., et al.*, 72 Pac. (2d) 1092, the mortgage (trust deed) contained a provision pledging and assigning the rents as security. After default an agreement was entered into between the owner and a bondholders’ committee (mortgagee) by which a manager was appointed to operate the property, that the rents from the property were to be deposited in a “depository satisfactory to all parties herein” and were to be paid out only upon the joint signature of a resident manager

of the apartments and of a representative of the bondholders' committee for the purposes hereinafter set forth. Provision was made for the disposition of rents, first, to payment of operating expense, second, taxes and third, "to pay the balance, if any, to the trustee under said mortgage or deed of trust for the benefit of its bondholder beneficiaries. It was provided that the instrument should be construed as made for the benefit of the owner and of the bondholders' committee.

Foreclosure proceedings were instituted, and a decree of foreclosure was entered July 15, 1935. Sale was confirmed November 26, 1935, but prior to the sale, a **judgment creditor** of the owner **attached** by garnishment the rents in the possession of the depository bank, holding under the aforesaid agreement, and a controversy resulted between the mortgagee claiming the rents, both under the provision in the mortgage pledging and assigning the rents and also under the management agreement which provided for the payment of the rents to the mortgagee. The Court held:

"The contract was a restriction on expenditures which might be made voluntarily by the manager or by the corporation, but it did not, and did not purport to, pass title to the funds or determine the rights of judgment creditors to proceed against them for satisfaction of their claims.

(3) It is said that the rents were assigned in the deed of trust. This, however, does not operate to give the mortgagee a right to such rents

except under certain definite conditions. . . .
Where rents are assigned to the mortgagee, a receiver may be appointed to take possession for him and collect the rents for his benefit; but this was not done. Neither under general principles of equity well recognized in foreclosure proceedings nor under our statute (if the same applies to prior mortgages which we need not determine) is the mortgagee entitled to the rent here involved.

.
(7) The money in the hands of Englander, who, so far as the contract and record discloses, had no other status than that of agent of the Norman Apartments, Inc., was the money of his principal and subject to garnishment by a judgment creditor of his principal.”

In the United States
Circuit Court of Appeals

For the Ninth Circuit 9

INVESTORS SYNDICATE, PORTLAND TRUST
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vs.

LLOYD R. SMITH, Trustee in the Matter of Guar-
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A. COAN and S. J. BISCHOFF,
Appellees.

APPELLANTS' REPLY BRIEF

Upon Appeal from the District Court of the
United States for the District of Oregon.

VERNE DUSENBERY,
HERBERT L. SWETT,
STEPHEN H. BOYLES and
CHAS. W. REDDING,
Attorneys for Appellants.

MCCAMANT, THOMPSON, KING & WOOD,
Attorneys for Lloyd R. Smith, Trustee, Appellee.

S. J. BISCHOFF and
RALPH A. COAN,
Attorneys for Intervening Creditors, Appellees.

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In the United States
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Appellees.

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APPELLANTS' REPLY BRIEF

•

Upon Appeal from the District Court of the
United States for the District of Oregon.

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STATEMENT OF THE CASE

In an effort to explain away the segregation
order signed by Judge McNary at the outset of the

proceedings after the hearing before the Special Master, appellees claim that the order "deals with bookkeeping only" and was not made on petition of the appellants. The fact is appellants appeared at the first meeting of creditors and opposed continuance of the bankrupt in possession (R. 6), and it was on account of what transpired at the original and adjourned hearing before the Special Master that the latter recommended to the court that a separate account be kept of all moneys coming into the Trustee's hands.

Section 47 (A) 6 of the Bankruptcy Statute requires the Trustee "to keep regular accounts showing all amounts received and from what sources and all amounts expended and on what account". See also General Order Number XVII. It was therefore not necessary for the court to enter an order requiring the Trustee to keep itemized accounts, because the statute already required this. The purpose of the order was to segregate the collections and expenses as to the various mortgaged properties.

Again, appellees are in error in stating that the court's order of segregation did not apply exclusively to the mortgaged properties. Not only is it true that the court had the mortgaged properties in mind, as is shown by consideration of the Special Master's report, but it is further an admitted fact in this case, referring to income exclusively from the mortgaged properties, that **such income was practically all the income that the two debtor cor-**

porations had; that during the administration of the Trustee in the bankruptcy proceedings the debtors were in a state of collapse, having virtually no income except from the mortgaged properties" (R. 69). Since the debtor, both before and after bankruptcy, had virtually no income except from the mortgaged properties, the order referring to segregation of income obviously could refer only to the mortgaged properties.

ASSIGNMENTS OF ERROR ARE SUFFICIENT

The appellees contend (Br. pp. 5 to 7) that the assignments of error are insufficient in that they fail to point out whether the error lies in lack or insufficiency of evidence to support the ruling of the Court or the erroneous conception or application of legal principles. They cite and rely upon cases from the Ninth Circuit in which it has been held that certain assignments of error are insufficient as being too general. The authorities do not sustain appellee's contention.

The authorities hold that an assignment of error must point out the particular act of the court which is alleged to be erroneous: *Am. Surety Co. vs. Fisher Warehouse Co.* (9 C.C.A.), 88 Fed. (2d) 536. The authorities do not hold that the assignment of error must contain legal reasons supporting appellant's contention. *Randolph vs. Allen* (5th C.C.A.), 93

Fed. 23; *A. T. & S. F. R. Co. vs. Meyers*, (7th C.C.A.), 76 Fed. 443. An appellant is not required to speculate as to what caused the judicial mind to reach an erroneous legal conclusion. Assignments that court erred in denying defendant's motion for a directed verdict (*A. T. & S. F. R. Co. vs. Meyers, supra; Kennedy Lumber Co. vs. Rickborn* (4. C.C. A.), 40 Fed. (2d) 228); that court erred in sustaining demurrer to complaint (*Smith vs. Royal Ins. Co.* (9th C.C.A.), 93 Fed. (2d) 143), that court erred (1) in overruling demurrer to complaint, and (2) in denying motion for directed verdict (*Southern Pac. Co. vs. Swartz* (9th C.C.A.), 89 Fed. (2d) 192), have been held to be sufficient under the rule. Also it was held in *Gartner vs. Hays* (8th C.C.A.), 272 Fed. 896, that a specification that court erred in its conclusions of law is sufficient to raise the question of whether the court's findings of fact are sufficient to sustain its legal conclusions.

The only question involved in this appeal is the correctness of the conclusion of law. There is presented for consideration no question of proceedings at the trial and no question of fact. The facts found by the Special Master were not excepted to and so stand as admitted. Furthermore, the facts have been stipulated on appeal under Equity Rule 77. The facts being admitted, the sole question is whether those facts entitle the mortgagees to the rents. The Special Master concluded that they did, but the trial court, being of the opposite opinion, sustained ex-

ception to the legal conclusions of the Special Master. The question is, did the court err in so doing.

Nor do the assignments of error violate the rule that each error relied upon must be separately assigned. There were separate assignments of error for each of the three appellants, directed to the Special Master's conclusions affecting the properties upon which each held a mortgage. The first assignment on behalf of Investors Syndicate covers the first five conclusions of law of the Special Master, which relate to the five apartment houses owned by Investors Syndicate. Since the question of law as to each of said apartment houses is identical, there was really involved only one question of law, namely, whether Investors Syndicate is entitled to recover the rentals from its mortgaged properties. To have specified error separately as to each apartment house would have been useless repetition. The same is true as to assignment No. 3 made on behalf of Portland Trust and Savings Bank, and covering conclusions of law six and seven which related to the two mortgaged premises of the Portland Trust and Savings Bank, as to each of which the same legal question was presented.

As counsel for appellees have pointed out there is really only one assignment of error in the case as to each of the appellants. The second assignment as to each mortgagee is the converse of the first. The error assigned is the act of the court in sustaining exceptions to the conclusions of law in the report of

the Special Master. The error complained of is thus specifically pointed out. Since that error is in making a conclusion of law, to specify *why* it was erroneous would trench upon the function of the brief and so incumber the record, as pointed out in the cases previously cited. The assignments do point out specific rulings of the trial court which are alleged to be erroneous, and so present the question whether, based upon the admitted facts, the appellants are or are not as a matter of law entitled to the rents.

We submit that the assignments of error are sufficient to raise the sole question involved in this appeal under a strict interpretation of the rules. But since assignments of error are abolished altogether under the new rules governing appeals, it would seem reasonable that the old rules as to the few cases to which they are still applicable should be applied with some degree of liberality, especially where the issue on appeal is a single question of law.

INTERVENTION OF BANKRUPTCY PRIOR TO RECEIVERSHIP DOES NOT BAR MORT- GAGEE'S ORDINARY REMEDIES OR THEIR EQUIVALENT.

Appellees labor to show that assignment of rents is a mere contract for a future lien which, not being perfected at the time of bankruptcy, entirely fails. In an effort to support this argument, which is entirely unsupported either in reason or authority, appellees claim that the bankruptcy cases award-

ing rents and profits to the mortgagee after bankruptcy, in the absence of receivership proceedings prior to bankruptcy, arise solely in jurisdictions where the common law theory of mortgages prevails. This argument is fallacious throughout.

MORTGAGEE'S CLAIM TO RENTS PRESENTS QUESTION SOLELY OF REMEDY.

The fallacy of counsel's argument concerning so-called failure to perfect lien prior to bankruptcy in a case where the mortgagee does nothing until bankruptcy, lies in the failure to distinguish between the lien right and the lien remedy. Application of rents and profits is a matter of remedy which flows as part of the original mortgage lien, where the mortgage contains appropriate provisions as in the present case. In the absence of voluntary surrender of possession, the rents are ordinarily obtained by application for a receivership, but when bankruptcy supervenes, a receiver cannot be appointed, as the bankruptcy court has sole jurisdiction. Therefore, the bankruptcy court gives an equivalent remedy suitable to the bankruptcy procedure. That is the reasoning of the courts in the many cases which we have cited in our main brief. (See Appellants' Brief, pp. 25, 28.)

The right to the rent remedy is determined by the validity of the mortgage itself, it being admitted in this case that the mortgage was for valuable consideration and was duly recorded and entitled

to the protection of Sec. 67D of the Bankruptcy Act (R. 27, 60). It might just as well be argued that the mortgage lien on the land itself is inchoate, as to argue that the remedy of application of the rents and profits is an inchoate lien right. In both cases all the mortgagee has is a lien, remedy on which is postponed until default, at which time the mortgagor must bring suit to foreclose before he can realize on his lien on the land, and must, in the absence of bankruptcy, ask for a receiver in order to obtain the rents and profits. After bankruptcy, foreclosure proceedings cannot be instituted without the bankruptcy court's consent and even thereafter the bankruptcy court may, if it wishes, retain possession until the bankruptcy proceedings are completed. But such possession from and after the date of the application by the mortgagee for the rents and profits is subject to application of those rents and profits to the mortgagee's account. We said in our original brief, and we repeat it now, that all of the cases so hold, the only difference being that some of the cases go even further and state that when the application is filed the mortgagee is entitled retroactively to the date of the institution of the bankruptcy proceedings. We challenged counsel to find one case to the contrary. That challenge has not been met.

It is no answer for counsel to state (Appellees' Brief, p.19), "There is in Oregon no substitute for this method of taking possession" (to-wit, the re-

ceivership method described by the Oregon statute). Neither Oregon nor any other state has or could attempt to legislate as to what remedies will be allowed in a court of bankruptcy. Section 67D of the Bankruptcy Act protects the mortgage lien, which includes all the mortgage incidents attendant to and flowing from the mortgage itself, such as the right to the rents and profits.

As said by the Supreme Court:

“The bankruptcy act did not attempt, by any of its provisions, to deprive a lienor of any remedy which the law of the State vested him with.”
Hiscock v. Bank, 206 U.S. 28, 41, 51 L. ed. 945, 953.

Cases which deny the validity of a lien which was not perfected prior to bankruptcy, such as an unrecorded mortgage or conditional sales contract, are, of course, entirely out of point because they are not entitled to the protection of Section 67D of the Bankruptcy Act.

BANKRUPTCY COURTS GRANT SEQUESTRATION WHETHER MORTGAGE CONTROLLED BY COMMON LAW OR LIEN THEORY.

We turn now to consideration of appellees' statement that all of the cases cited by us in our main brief are from so-called common law jurisdictions rather than lien jurisdictions.

Our first answer is that we cited cases of mortgages in a number of jurisdictions where the lien theory rather than the common law theory of mort-

gages prevails, to-wit:

CALIFORNIA:

American Trust Co. v. England, 84 F. (2d) 352 (C.C.A. 9).

Re Hotel St. James Co., 65 F. (2d) 82 (C.C.A. 9).

NEW YORK:

In re. Brose, 254 F. 664.

Prudential Insurance Co. v. Liberdar, 74 F. (2d) 50 (C.C.A. 2).

Lincoln Bank v. Realty Associates, 67 F. (2d) 895.

WISCONSIN:

Re Clark Realty Co., 234 F. 576 (C.C.A. 7).

FLORIDA:

Florida Bank v. U. S., 87 F. (2d) 896 (C.C.A. 5).

Appellees' brief (appendix) contains a digest of the laws of various states on this point, but it will be noticed that none of the states above mentioned is included in this appendix, indicating that counsel concedes that these cases arose in jurisdictions adhering to the lien theory of mortgages, just as Oregon does. The same authority cited by counsel, to-wit, 1 Jones, Mortgages, 8th ed., bears out the fact that the above states subscribe to the lien theory. See Sections 67, 22, 26, 48, 65.

It will further be noticed that although counsel argues extensively that Florida adheres to the common law theory, the appendix makes no reference to the law of Florida. Counsel argues that in Florida

a deed of trust, as distinguished from an ordinary mortgage, passes legal title and the right to possession, citing *Sautter v. Miller*, 15 Fla. 625. (See Appellees' Brief, p. 32.) The fact is that in Florida **all mortgages** give a mere lien to the mortgagee. Section 5725 of 1927 Compiled Laws of Florida, provides:

"A mortgage shall be held to be a specific lien on the property therein described and not a conveyance of the legal title or of the right of possession."

This statute was enacted in 1853. It is, accordingly, held in Florida that the mortgagor is not entitled to possession until after foreclosure and sale: *Pasco v. Gamble*, 15 Fla. 562; *White Engineering Corp. v. Bank*, 81 Fla. 35, 87 So. 753. The mortgagor retains the rents: *Endall v. Walls*, 16 Fla. 786. This section was construed as abrogating the common law rule: *Walker v. Huce*, 78 Fla. 667, 83 So. 605; *Evins v. Bank*, 80 Fla. 84, 85 So. 869.

There is nothing in the Florida law making any distinction as to a mortgage in the form of a deed of trust. The case relied on by counsel of *Sautter v. Miller*, *supra*, was decided on the express ground that the trust deed in that case was for general trust purposes, and was no mortgage at all.

Appellees in an effort to distinguish the *Livingston* case, contend that Missouri is a common law jurisdiction, but neglect to mention that 1 Jones, *Mortgages*, 8th ed., Sec. 67, classifies Missouri as neither a common law nor a lien state, stating that

Missouri modifies the common law in that until breach of condition and possession taken the mortgagor is regarded as owner, even against the mortgagee.

The remaining states which Jones classifies as common law jurisdictions are Alabama, Illinois, Massachusetts, New Jersey, Ohio and Pennsylvania. It therefore appears that we have cited cases from five jurisdictions that are common law jurisdictions, four jurisdictions that are lien states, and one state that has a hybrid rule of mortgage law. How, under these facts, can counsel contend, as stated at page 41 of Appellees' Brief, that "the element common to all the cases cited by appellants is that in all of the states in which the mortgages were made, the mortgagee by virtue of the mortgage and the law of the state applicable thereto had the legal title, the immediate right of possession, and the immediate right to the rents."

Again, in answer to appellees' contention based on whether the particular state has a common law or lien theory, it should be noted that in not one of the cases cited by us was any such distinction raised or even suggested. On the contrary, all these cases held strictly as a matter of bankruptcy law that remedies which were open to the mortgagee in absence of bankruptcy should not be denied subsequent to bankruptcy, and that therefore the bankruptcy court would supply an equivalent remedy. We quote again from *Bindseil v. Liberty Trust Co.*,

248 F. 112 (C.C.A. 3) :

“This view is not based upon the notion that the mortgage confers a lien on rents, for, of course, it does not; but it is based upon what is conceived to be an equitable adjustment of rights, of which some are obviously superior to others. Such an application of income from encumbered property appears to be not only an equitable but a very practical way of administering bankrupt assets.”

NO REASON FOR ANY DISTINCTION BETWEEN COMMON LAW AND LIEN STATES

There is no logical reason for any distinction between the common law states and the lien states. In all jurisdictions, even where the common law theory prevails, the mortgagor is not entitled to the rents and profits until he obtains possession or has a receiver appointed: 2 Jones, Mortgages, 8th ed., Sec. 976. See *Elmore v. Symonds*, 183 Mass. 321, 67 N.E. 314; *Meyers v. Brown*, 92 N.J. Eq. 348, 112 Atl. 844. We call the court's attention to the fact that in all the states subscribing to the common law theory, an ejectment action is necessary before the mortgagee can obtain possession and have the rents. See Appellees' Brief, Appendix, pp. 1-5.

If a mortgagee in a common law state has not yet obtained possession by an action in ejectment, he is in precisely the same position as a mortgagee in a lien state who has not obtained the appointment of a receiver prior to bankruptcy. In both

cases the mortgagee has a remedy which has not been exercised as of the date of bankruptcy. In both cases the bankruptcy court, being a court of equity, will supply a remedy equivalent to the state court remedy.

The Supreme Court has stated (referring to 77B proceedings) :

“They are essentially courts of equity and their proceedings inherently proceedings in equity * * *.” *Continental Illinois Bank v. R. R.*, 294 U.S. 648, 675, 79 L. Ed. 1110, 1128.

The *Continental Illinois Bank case*, far from supporting appellees’ theory, well illustrates the fallacy of confusing a property right with a remedy. In that case the court, under Section 77 of the Bankruptcy Act, restrained the sale of collateral held by a mortgagee in possession. In reaching that result the court gave careful consideration to Section 67D of the Bankruptcy Act and held that the injunction did not infringe, because (294 U.S. at 676) :

“The injunction here in no way impairs the lien * * * it does no more than suspend the enforcement of the lien * * *.”

ADDITIONAL REASONS TO PROTECT MORTGAGEE UNDER SECTION 77B.

In our main brief (pp. 35-39), we considered the mortgagee’s rights under 77B and pointed to the widened scope of 77B proceedings and especially the

fact that in addition to the ordinary powers granted under the Bankruptcy Act, Section 77B endows the court with all the powers of a Federal court in a general equity receivership. We further showed that every case in which the point has arisen under 77B, was decided in favor of the mortgagee.

Appellees concede that under the case of *Prudential Insurance Co. v. Liberdar*, 74 F. (2d) 50 (C.C.A. 2), the Federal Court in a general equity receivership will award the rents and profits to the mortgagee from and after the date of application therefor (Appellees' Br. p. 40). But appellees claim that because this is a bankruptcy proceeding the *Liberdar* case is of no authority.

Our answer to this is that Section 77B (a) gives to the court all of the powers that the Federal Court had in a general equity receivership such as the *Liberdar* case: *Duparquet v. Erans*, 297 U.S. 216, 80 L. ed. 591.

Since we are considering the jurisdiction of the court, and not the powers of the trustee, counsel's references to the latter are irrelevant. However, if counsel had fully quoted Section 77B(c)(2) instead of breaking off the quotation, it will be noted that same reads as follows (words omitted by counsel are underlined) :

"Every such trustee upon filing such bond, shall have all the title and shall exercise, subject to the control of the judge and consistently with the provisions of this section, all the powers

of a trustee appointed pursuant to Section 44 of this Act, *and if authorized by the judge, the same powers as those exercised by a receiver in equity to the extent consistent with this section * * *.*"

Appellees further contend, p. 56, that the power under 77B to restrain pending foreclosure proceedings existed under ordinary bankruptcy. The contrary has been conclusively determined in many decisions. See, for example: *Straton vs. New*, 283 U. S. 318; 75 L. ed. 1060. *Hiscock vs. Bank*, 206 U.S. 28; 51 L. ed. 945. *Metcalf Bros. vs. Barker*, 187 U.S. 165; 47 L. ed. 122. It is useless for counsel to contend that 77B did not greatly amplify the powers of the bankruptcy court, thereby imposing upon it the duty to protect the remedy of the lienor by supplying an equivalent of what the lienor would have had in the absence of 77B proceedings.

We submit that counsel have failed entirely to answer our point with reference to 77B and we call the court's attention to the fact that no cases are cited by counsel under 77B where the mortgagee was barred after filing application for the rents.

NAYBERGER CASES NOT IN POINT

Counsel cite *State ex rel Nayberger v. McDonald*, 128 Or. 684, 274 P. 1104, and *McKinney v. Nayberger*, 138 Or. 203, 6 P. (2d) 228. These cases are entirely out of point. They are cited in support of counsel's contention concerning the Oregon law

relating to mortgages. But in the Nayberger cases the mortgagee held a second mortgage which contained no provision for application of the rents and profits. Since the rents and profits were not pledged as permitted by Section 5-112 of the Oregon Code, the trial court order appointing the receiver was void. The mortgagee in that case was a second mortgagee, the first mortgagee not being a party to the suit. The first mortgage contained appropriate provisions for application of rents, but it was held that there were no grounds whereunder the second mortgagee could claim subrogation and therefore the mortgagee could not benefit by the provisions of the first mortgage.

SPECIAL FACTS RELATING TO PORTLAND TRUST AND SAVINGS BANK.

Our main brief, pp. 46, 47-56, showed that Portland Trust & Savings Bank's remedy was exercised prior to bankruptcy and that the rentals were impounded in the state court not only before bankruptcy but after institution of bankruptcy proceedings and until the filing of 77B proceedings. It is not true, as appellees claim, that there was anything informal about the treatment throughout these proceedings of Portland Trust's claim as being on a trust basis in recognition of its rights to the rents and profits, because we have already shown that the bankruptcy court itself issued an order permitting the trustee in bankruptcy before

77B proceedings to pay the moneys to the state court in the foreclosure proceedings of Portland Trust (R. 11-12). When 77B proceedings were instituted they had the effect of staying the state court proceedings so that from that time the rents were collected by the bankruptcy court.

Under the case of *Hitz v. Jenks*, 123 U.S. 297, payment of the rentals into the court by the mortgagor, acting under court order, was the equivalent of a court receivership. The discussion of appellees (p. 65) is in no way to the contrary. The court in the *Hitz* case required the plaintiff to collect the rents and pay them into court, and as to all rents subsequently collected, although the order was not denominated a receivership order, it was held that the procedure was equivalent to a receivership. The identical situation is true in our case, except that the party appointed to collect the rents and pay them into court was the defendant instead of the plaintiff. The rents were just as effectively sequestered as if a third party had been appointed as receiver. By the express order of the state court, the rents when collected were to be applied to the bank's mortgage indebtedness (R. 10).

It is not true that Judge McNary's order, permitting the payments to the state court to continue after bankruptcy proceedings, was set aside as soon as the trustee found out about it and raised the question. On the contrary, the original order was entered by Judge McNary after a motion had been

filed supported by affidavit (R. 11). The trustee raised no further question about the matter until 77B proceedings were instituted, and then for the first time did payments to the state court cease, although even after that time the bankruptcy court, for a period, permitted the rents to be collected by one Kaste.

On these facts it is plain that when the trustee put the Portland Trust funds in a separate bank account and kept them there ever since, the trustee was acting consistently with the bank's rights as recognized by the previous court order.

REPLY TO APPELLEES' CONTENTION THAT
1927 AMENDMENT TO SECTION 5-111, ORE-
GON CODE, IS NOT APPLICABLE TO
INVESTORS SYNDICATE MORTGAGES
WHICH WERE PREVIOUSLY EXECUTED.

Appellees cite (Br. p. 72) Michigan cases construing an Act of that State of 1925, as supporting their contention that the amendment of 1927 in Oregon cannot be applied to mortgages previously executed. The Michigan Statute of 1925 is of no aid to us in this controversy because of essential differences in wording. The Michigan Statute starts out with the word "hereafter", and this was emphasized in *Newsbaum vs. Shapiro* (Mich.), 228 N.W. 785, as requiring that it be applied only to mortgages subsequently executed. When the difference in language of the statute is considered, the Michigan au-

thorities really support the construction and application for which we contend.

ASCERTAINMENT OF DEFICIENCY

It is contended that the mortgagees have the burden to prove that they bid a fair price at the foreclosure sale and that the bankruptcy court may determine that the actual value was in excess of such amount. This point has no place in the present litigation, because the amount of recovery to be awarded to appellants is a matter for future accounting. This court has before it only the broad legal question as to whether the mortgagee is entitled to rents and profits after application therefor in the bankruptcy court.

Respectfully submitted,

STEPHEN H. BOYLES,

CHAS. W. REDDING,

VERNE DUSENBERY,

Attorneys for Investors Syndicate, Appellant.

VERNE DUSENBERY,

Attorney for Metropolitan Life Insurance Company, Appellant.

VERNE DUSENBERY,

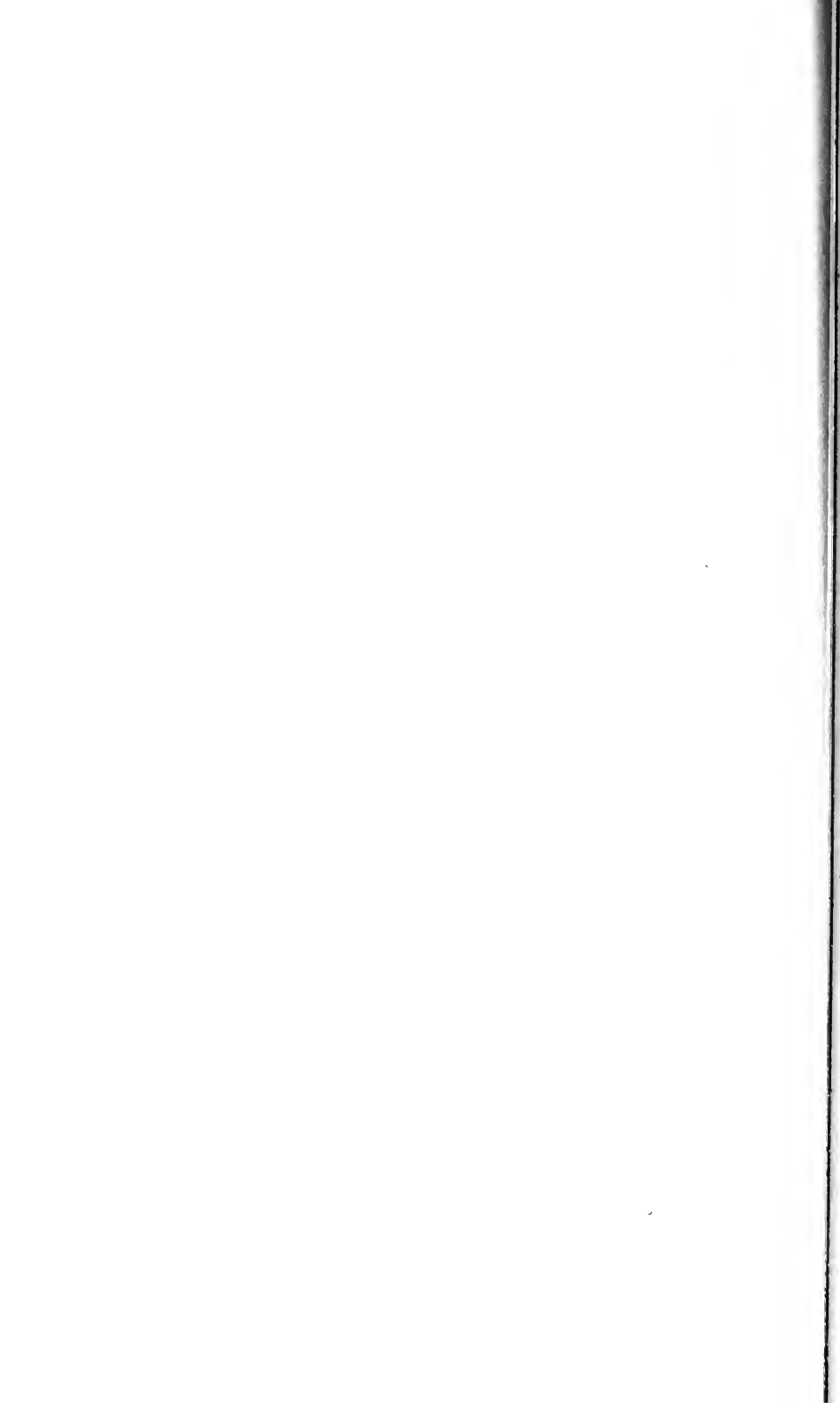
HERBERT L. SWETT,

Attorneys for Portland Trust & Savings Bank, Appellant.





APPENDIX



APPENDIX

Limitation of space makes it impossible in the main reply brief to consider all of the cases cited by counsel. A number of these cases are cited on collateral points or are obviously distinguishable and need not be considered herein. Practically all the cases dealing with the main issue before us are treated in our main brief. It is our belief that in important regards counsel's argument concerning some of these cases is misleading and inaccurate. We feel, therefore, that it will be of assistance to the court in this appendix to consider in alphabetical order certain of these cases, as follows:

American Trust Company v. England, 84 F. (2d) 352 (C.C.A. 9). See Appellants' Brief, pp. 18, 19, 21, 23, 63, 64, 65. Appellee's attempted distinction fails. The trustee in bankruptcy of a third mortgagee was in possession under the latter's mortgage, without the mortgagor's consent. In effect, therefore, the trustee in bankruptcy of the third mortgagee was an assignee of the mortgagor. The mortgagor at no time consented to possession by or for the benefit of the first mortgagee. Nevertheless, the first mortgagee was held to be entitled to the rents from and after date of application in the bankruptcy proceeding of the third mortgagee. The third mortgagee was just as much an adverse party as far as the first mortgagee was concerned as was the owner. The owner was in no way estopped from assert-

ing his position against the first mortgagee, as possession had never been surrendered to the first mortgagee. This court used the following broad language in concluding its decision in the *England* case:

“This is a proceeding in equity, and we find funds in the possession of the trustee in bankruptcy to which the appellant made proper claim and is in a position equivalent to his possession of the property as mortgagee in possession. Before distribution of the funds, the mortgagor became a party to the bankruptcy proceedings in which the funds are so held. It has had full opportunity as such party to protect its rights. The issue as to the right to the funds should be determined by this court sitting in equity.”

The *England* case is important not only as establishing the mortgagee's rights against the owner, but also as establishing the first mortgagee's rights against the third mortgagee in the bankruptcy proceedings. Since the third mortgagee was in effect an assignee of the mortgagor, the third mortgagee being in possession had the same rights as the mortgagor had against the first mortgagee. Consequently when the bankruptcy court permitted the first mortgagee upon application to obtain the rents and profits, it is clear that the same result would have followed had the bankruptcy been that of the mortgagor instead of that of the third mortgagee.

Bindseil v. Liberty Trust Co., 248 F. 112. Appellees' quotation from the *Bindseil* case (Brief, p. 51) is highly misleading. The paragraph there quoted is

stated by the court as setting forth contentions with which the court disagrees, and the balance of the opinion is devoted to showing why the quoted statement is wrong. The very next words of the court after the portion quoted are as follows:

“In these decisions the fact of bankruptcy is noted but its effect on the relative rights of creditors is disregarded.”

The decisions mentioned are lower court decisions which are distinguishable on their facts.

Continental Illinois Bank vs. Chicago, etc. Company, 294 U.S. 648, 79 L. ed. 1110. It is to be noted that that was a 77B case which merely exemplifies that under 77B the court has the power to do what it does not have the power to do under the ordinary bankruptcy statute, to-wit, restrain a pledgee in possession from foreclosing by sale. Such restraint, of course, is for the protection of the bankruptcy court and subject to the obligation of the court not to impair the lien, but on the contrary to preserve the lienor's rights subject to such delay as is required by the 77B proceedings. As applied to a case of mortgages on income producing real property, the court in 77B may well restrain the enforcement of a mortgagee's remedy even where there was a receivership prior to bankruptcy, but if reorganization fails and the mortgagee is not otherwise protected, the bankruptcy court must provide a retroactive remedy commensurate with the remedy which was stayed. Likewise, if the mortgagee has made no ap-

plication prior to bankruptcy, he is entitled to the same protection from and after the date of application to the bankruptcy court.

Dallas Trust & Savings Bank v. Ledbetter, 36 F. 221 (C.C.A. 5), (Re. Thomas). This case is distinguishable on the same grounds as the St. James case. See Appellants' Brief, p. 29, where the case is discussed under the name of Re Thomas. The quarterly rent came due and was collected April 1st, and the court says that no application was made to the bankruptcy court until "after April 1st". Mortgagee contended sale and foreclosure would have occurred, except for bankruptcy, before April 1st, but that was held to be immaterial. The case is no authority for what would have happened had the application been for rents subsequently collected.

Florida Bank v. U. S., 87 F. (2d) 896 (C.C.A. 5). See supra, pp. 10-11; see also Appellants' Brief, pp. 28, 38. The case is direct authority that the mortgagee is entitled upon application. There is not one word in the opinion bearing out appellees' statement to the effect that the mortgagee was in possession before bankruptcy. See Appellees' Brief, pp. 32-3.

Re Foster, 9 Fed. Cas., p. 523; s.c. on appeal, 9 Fed. Cas., p. 572. This case arose under the Bankruptcy Act of 1867. Furthermore, the case is distinguishable because it was held that the mortgagee was not entitled to rents collected by the bankruptcy court **before** application therefor.

In re Hotel St. James Co., 65 F. (2d) 82. Counsel ignores the distinction made by the court that in the St. James case application for the rents was not made until after the rents had been collected. See Appellants' Brief, pp. 20, 21, 25, 33, 67.

Mortgage Loan Co. v. Livingston, 45 F. (2d) 28 (C.C.A. 8). See Appellants' Brief, pp. 21, 23, 64, 66. The significant thing about appellees' discussion of this case (p. 46) is that appellees lay great stress on the supposed fact that "the receiver promptly consented to such segregation" and request by the mortgagee immediately upon institution of the bankruptcy proceedings. In the first place counsel are in error in stating that the receiver consented to application of the rents. All that the receiver consented to was segregation, putting the case on a precise parallel with our case, where there was a court order for the segregation at the outset of the proceedings. Furthermore, counsel's argument that the receiver's consent to segregation (and his supposed consent to application) constitutes a sequestration is in direct negation of counsel's argument concerning claim of Portland Trust & Savings Bank that the trustee in bankruptcy had no right to consent to segregation of the rentals on the Portland Trust properties (Appellees' Brief, pp. 65-7). There counsel argues vigorously that even where the trustee actually deposits the money in a separate trust account, the bankruptcy estate is not bound thereby.

Sullivan v. Rosson, 223 N.Y. 217, 119 N.E. 405. This case has already been discussed by us. See Appellants' Brief, pp. 30, 67. It simply holds that a junior mortgagee is entitled as against a senior mortgagee until such time as the latter takes appropriate action to have the rents applied on the senior mortgage. In recognition of the senior mortgagee's rights, the court says (4 A.L.R., p. 1404) :

“A senior mortgagee desiring to obtain such rents * * * should actually possess himself of them or of the right to them through some mutual arrangement, * * * *or he should make application to the court to have the receivership extended for his benefit * * **.”

We have, in bankruptcy, done the equivalent of the latter.

Re Van Rooy, 21 F. Suppl. 431 (D.C., Ohio). This is a District Court case. The case in no way conflicts with the many cases cited by us. Appellees' own statement of the case is that “**after** the sale of the property” the mortgagee petitioned for segregation covering rents previously collected. The court recognizes that had timely and appropriate application been made by the mortgagee, he would have been entitled to the rents. Appellees quote (p. 25), the court's statement to the effect that the mortgagee, to make the lien effective, should have brought foreclosure proceedings, with the court's consent, or in the alternative should have obtained from the bankruptcy court the appointment of a receiver to collect the rents for the mortgagee's benefit or “at

least it should have made some such attempt". What the court means, obviously, is that the mortgagee did not take timely action to protect his remedy. It may further be noted that in our cases the court ultimately granted leave to foreclose as to all the mortgages, and rents and profits were collected herein after such orders were entered.

In re Wakey, 50 F. (2d) 869 (C.C.A. 7). See Appellants' Brief, pp. 21, 33. The reason that this court refused to follow the *Wakey* case was not, as stated by appellees, that a mortgage creates no lien on future rents. On the contrary, the reason was that the *Wakey* case permits recovery from the date of the bankruptcy proceedings, regardless of the date of application, whereas this circuit limits recovery to the period subsequent to date of application.

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